# UK plans bold tax reforms to bridge fiscal gap without breaching manifesto pledges



As UK Finance Minister Rachel Reeves prepares for the forthcoming autumn Budget, the challenge of bridging a looming fiscal gap without breaching Labour’s manifesto commitments has prompted calls for sweeping tax reforms rather than mere tax rate increases. Leading economists and think tanks, most notably the Institute for Fiscal Studies (IFS), have urged Ms Reeves to pursue genuine structural changes aimed at improving fairness and efficiency within the tax system, rather than relying on “directionless tinkering and half-baked fixes,” according to the IFS.

Facing an estimated shortfall in public finances potentially reaching tens of billions of pounds by 2029-30, Ms Reeves must steer carefully. The IFS highlights various reforms that could raise substantial revenue without violating the party’s pledge not to increase the “big three” taxes—income tax, national insurance contributions (NICs), and VAT—especially for working people. Among the options are abolishing capital gains tax relief on death, which would raise around £2.3 billion by 2029-30, tightening inheritance tax by removing the additional £175,000 allowance on primary residences to net approximately £6 billion, and doubling council tax rates on top-end properties to generate about £4.4 billion. The Institute also recommends bolstering bank levies and surcharges, measures expected to contribute billions more by the mid-2020s.

Notably, these reforms address perceived inefficiencies and regressivities in the current system. For example, council tax remains based on property values from 1991, leading to outdated and arguably unfair bandings that disproportionally affect taxpayers. The IFS advocates for replacing stamp duty and council tax with a new recurrent property tax reflecting present-day property values, with a focus on shifting tax burdens towards areas like London, where house price growth has been strongest. Conversely, the think tank opposes an annual wealth tax, citing its potential to penalise savers and distort economic behaviour, favouring instead a single “one-off” wealth levy that could raise revenue without some of the drawbacks.

The wider fiscal context adds complexity. Recent reports suggest Ms Reeves aims to increase the fiscal buffer beyond the nearly £10 billion initially targeted to protect against economic shocks such as borrowing cost volatility and downgraded growth forecasts. This effort follows a previously announced £40 billion tax rise, raising questions about the scale and nature of forthcoming revenue measures. Treasury sources acknowledge that higher taxes or spending cuts may be essential, while economists warn that without reform, simple tax increases could damage growth prospects.

The debate extends to whether strict adherence to Labour’s tax pledges is feasible. The National Institute of Economic and Social Research (NIESR) argues that breaching the manifesto promise not to raise income tax on working people might be necessary and economically preferable to alternatives that risk deterring investment or causing greater GDP losses. From their perspective, income tax increases, though potentially unpopular, represent a more efficient revenue tool given its broad base compared to wealth taxes or VAT hikes.

Meanwhile, business confidence is fragile. A survey by the Recruitment and Employment Confederation (REC) indicates employers remain cautious about hiring and wage increases ahead of the Budget, affected in part by previous social security contribution rises. Calls have been made to avoid new corporate taxes that could further undermine recruitment and investment.

Recent moves in the Budget reveal some of these tensions. For example, Ms Reeves has announced increases in capital gains tax rates—boosting the lower rate from 10% to 18% and the higher rate from 20% to 24%, with the tax on private equity ‘carried interest’ rising to 32%. She has also raised employers’ NICs to 15%, frozen the inheritance tax threshold, and scrapped non-dom status in favour of a residence-based scheme. Speculation around a capital gains tax rise to as high as 39% was officially denied by the finance ministry. Capital gains tax currently accounts for less than 2% of total tax revenue and is paid by fewer than 1% of adults in Britain, reflecting its potential leverage if reformed.

In summary, economists see the autumn Budget as a critical juncture. The consensus among experts interviewed by Reuters and others is clear: Ms Reeves must resist simple tax hikes and instead capitalise on the opportunity to enact meaningful and durable tax reforms that enhance fairness, efficiency, and resilience in the UK’s public finances. This approach, they argue, offers a pathway to safeguarding investment and living standards while addressing an increasingly precarious fiscal outlook.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.irishnews.com/news/uk/reeves-could-raise-billions-without-breaking-labour-pledges-ifs-OGVYEUYURVKV7IVXRYKWJ2N2VE/), [[2]](https://www.reuters.com/world/uk/uks-reeves-should-use-budget-reform-tax-system-ifs-says-2025-10-12/)
* Paragraph 2 – [[1]](https://www.irishnews.com/news/uk/reeves-could-raise-billions-without-breaking-labour-pledges-ifs-OGVYEUYURVKV7IVXRYKWJ2N2VE/), [[2]](https://www.reuters.com/world/uk/uks-reeves-should-use-budget-reform-tax-system-ifs-says-2025-10-12/)
* Paragraph 3 – [[1]](https://www.irishnews.com/news/uk/reeves-could-raise-billions-without-breaking-labour-pledges-ifs-OGVYEUYURVKV7IVXRYKWJ2N2VE/), [[2]](https://www.reuters.com/world/uk/uks-reeves-should-use-budget-reform-tax-system-ifs-says-2025-10-12/)
* Paragraph 4 – [[3]](https://www.reuters.com/world/uk/uks-reeves-plans-build-bigger-budget-buffer-telegraph-2025-10-12/), [[1]](https://www.irishnews.com/news/uk/reeves-could-raise-billions-without-breaking-labour-pledges-ifs-OGVYEUYURVKV7IVXRYKWJ2N2VE/)
* Paragraph 5 – [[4]](https://www.reuters.com/world/uk/uks-reeves-should-break-income-tax-promise-budget-think-tank-says-2025-10-09/), [[1]](https://www.irishnews.com/news/uk/reeves-could-raise-billions-without-breaking-labour-pledges-ifs-OGVYEUYURVKV7IVXRYKWJ2N2VE/)
* Paragraph 6 – [[5]](https://www.reuters.com/world/uk/uk-employers-curb-hiring-pay-rises-before-budget-recruiters-say-2025-10-09/)
* Paragraph 7 – [[6]](https://www.thenationalnews.com/news/uk/2024/10/30/budget-rachel-reeves-tax/), [[7]](https://www.reuters.com/world/uk/uks-reeves-is-considering-raising-capital-gains-tax-39-guardian-says-2024-10-10/)
* Paragraph 8 – [[1]](https://www.irishnews.com/news/uk/reeves-could-raise-billions-without-breaking-labour-pledges-ifs-OGVYEUYURVKV7IVXRYKWJ2N2VE/), [[2]](https://www.reuters.com/world/uk/uks-reeves-should-use-budget-reform-tax-system-ifs-says-2025-10-12/), [[3]](https://www.reuters.com/world/uk/uks-reeves-plans-build-bigger-budget-buffer-telegraph-2025-10-12/), [[4]](https://www.reuters.com/world/uk/uks-reeves-should-break-income-tax-promise-budget-think-tank-says-2025-10-09/), [[5]](https://www.reuters.com/world/uk/uk-employers-curb-hiring-pay-rises-before-budget-recruiters-say-2025-10-09/), [[6]](https://www.thenationalnews.com/news/uk/2024/10/30/budget-rachel-reeves-tax/), [[7]](https://www.reuters.com/world/uk/uks-reeves-is-considering-raising-capital-gains-tax-39-guardian-says-2024-10-10/)

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## Bibliography

1. <https://www.irishnews.com/news/uk/reeves-could-raise-billions-without-breaking-labour-pledges-ifs-OGVYEUYURVKV7IVXRYKWJ2N2VE/> - Please view link - unable to able to access data
2. <https://www.reuters.com/world/uk/uks-reeves-should-use-budget-reform-tax-system-ifs-says-2025-10-12/> - The Institute for Fiscal Studies (IFS) has urged UK Finance Minister Rachel Reeves to implement comprehensive tax reforms in her upcoming November budget, rather than merely increasing existing tax rates to raise the estimated £30 billion needed for public finance goals. The IFS highlights that raising tax rates on income, VAT, or social security—which Reeves and Prime Minister Keir Starmer have pledged not to do—would be less effective and potentially more harmful to the economy. Instead, the IFS recommends more rational and targeted approaches, such as reforming wealth-related taxes like capital gains tax and overhauling property taxation. One suggestion includes shifting local property tax burdens to areas with greater house price growth, such as London, and scrapping stamp duty. The IFS opposes an annual wealth tax, a policy backed by some in the Labour Party. Meanwhile, the National Institute of Economic and Social Research proposed breaking Reeves's tax pledge if necessary to prevent economically damaging revenue-raising strategies.
3. <https://www.reuters.com/world/uk/uks-reeves-plans-build-bigger-budget-buffer-telegraph-2025-10-12/> - UK Finance Minister Rachel Reeves is planning to increase the fiscal buffer in the upcoming November budget to enhance resilience against economic shocks, according to a report by the Sunday Telegraph. Previously, Reeves targeted a £9.9 billion buffer to meet her main fiscal rule—balancing day-to-day public spending with tax revenues by 2030. However, rising government borrowing costs, the scrapping of a £5 billion welfare savings plan, and downgraded growth forecasts from the budget watchdog have prompted a reassessment. Economic think tanks now estimate that she may need to raise around £30 billion in additional taxes. Treasury sources suggest Reeves is seeking a larger buffer to guard against bond market volatility and increasing borrowing costs. Though she previously raised taxes by £40 billion and vowed not to repeat it, higher taxes or spending cuts may now be required. Economists may support the move, noting that a larger buffer could reduce economic uncertainty caused by potential future tax hikes or spending cuts. The Treasury stated that the fiscal rules are aimed at reducing borrowing, keeping interest rates low, and allowing for more investment in public services.
4. <https://www.reuters.com/world/uk/uks-reeves-should-break-income-tax-promise-budget-think-tank-says-2025-10-09/> - A report by the National Institute of Economic and Social Research (NIESR) advises UK Finance Minister Rachel Reeves to increase income tax in the upcoming budget, even if it means breaking a pre-election promise not to raise taxes on working people. The think tank argues that this option would be less economically disruptive compared to alternatives such as wealth taxes, VAT increases, or corporate tax hikes. Reeves and Prime Minister Keir Starmer had pledged not to raise income tax, national insurance contributions (NICs), or VAT for working people, or the main corporate tax. However, rising borrowing costs, scrapped welfare savings plans, and reduced growth forecasts are putting pressure on public finances. NIESR warns that a tax on wealth could deter savings and investment, while a land value tax would take time to implement. Income tax, despite impacting spending and work incentives, is considered a more efficient tool due to its broad base—requiring a smaller rate increase to generate the needed £30 billion revenue. Conversely, equivalent VAT hikes would more drastically cut personal income and GDP.
5. <https://www.reuters.com/world/uk/uk-employers-curb-hiring-pay-rises-before-budget-recruiters-say-2025-10-09/> - A recent survey by the Recruitment and Employment Confederation (REC) reveals that the UK job market remains weak, with declining hiring activity and stagnant pay growth. Employers are hesitant to recruit or increase salaries ahead of Finance Minister Rachel Reeves' upcoming November budget, which is expected to include potential tax hikes. The report highlights particularly notable declines in the retail and hospitality sectors, which were adversely affected by increased employer social security contributions introduced in Reeves' previous budget. Permanent staff hiring saw the least dramatic drop in a year, but starting salaries showed minimal growth. REC CEO Neil Carberry urged the government to boost business confidence by avoiding new corporate taxes and reconsidering labor rights reforms that could raise employers' costs. Reeves is likely to adopt tax increases to meet her fiscal goals, contributing to business uncertainty.
6. <https://www.thenationalnews.com/news/uk/2024/10/30/budget-rachel-reeves-tax/> - In her October 2024 budget, UK Finance Minister Rachel Reeves announced several key tax measures, including a 1.2 percentage point increase in employers' National Insurance contributions to 15%, a freeze on fuel duty for another year, and increases in capital gains tax rates. The lower rate of capital gains tax will rise from 10% to 18%, and the higher rate from 20% to 24%. The rate of capital gains tax on the performance fees that private equity fund managers make when assets are sold, known as 'carried interest', will also rise to 32%. The national minimum wage will rise to £12.21 an hour for over-21s in April. Non-dom status will be scrapped from April, to be replaced by a residence-based scheme with 'internationally competitive arrangements' for temporary residents. The inheritance tax threshold is frozen for another two years until 2030, meaning the first £325,000 of an estate can be inherited tax-free.
7. <https://www.reuters.com/world/uk/uks-reeves-is-considering-raising-capital-gains-tax-39-guardian-says-2024-10-10/> - British finance minister Rachel Reeves is reportedly considering raising the capital gains tax rate to as high as 39% in her upcoming budget, according to the Guardian newspaper. Currently, the higher rate for capital gains tax ranges from 20% to 28%, dependent on the asset type. However, the finance ministry has denied the report, stating it is 'pure speculation.' The Institute for Fiscal Studies believes Reeves would need to raise taxes by £25 billion to tackle public service funding issues left by the previous Conservative government. Labour has pledged not to raise income tax, VAT, corporation tax, or social security contributions, limiting their revenue options. Capital gains tax currently contributes around £15 billion annually, less than 2% of total tax revenue, and is paid by just 0.65% of British adults.