Party conferences report: the latest tax policy announcements

General Features



25 October 2023

Following a year of huge political turbulence, and with an election on the way, we report back from this year's party conferences.

Was it really just a year ago that a Conservative government was trumpeting the biggest package of tax cuts in half a century? Was it really just four years ago that Labour were setting out wholesale nationalisation plans and proposing £83 billion a year of tax rises?

Both the largest parties have taken radical departures from the political mainstream in recent years, thrilling their bases but leaving the wider public and most of the business community distinctly unimpressed. This year's conferences were much more down to earth affairs, showing two parties bumping back down to the hard

reality of stubbornly high inflation, stretched budgets and a watchful bond market.

What does this mean for tax? Mostly it means we are back to the politics of small – and often symbolic – differences. For all the rhetorical flourishes and crowd-pleasing statements of intent, the policy differences between the major parties – including the Liberal Democrats – are actually pretty limited (provided you're not a fund manager, non-dom or parent with school fees to pay).

The tax burden

The parties broadly agree about where we are, though not about how we got here.

The Conservatives have reluctantly put up taxes. They blame factors outside their control (the pandemic, the war in Ukraine) for the need to do this. Labour and the Lib Dems blame Conservative economic mismanagement – and especially the Truss-Kwarteng Mini-Budget.

Everyone agrees that in a cost of living crisis there is no scope to increase taxes on most households. Everyone agrees that, after last year's rollercoaster, stability is key. Everyone agrees, in the Chancellor's words, that there are 'no shortcuts to lower taxes'; they have to be earned by cutting inflation, generating growth and improving the public finances.

Well, perhaps not quite everyone. One notable difference between the parties is that while the Labour left are now mostly off the field and wield little influence, the free market right have not gone anywhere and are still a force to be reckoned with at all levels of the Conservative Party. Most visibly we saw 33 Tory MPs, including Liz Truss, sign a pledge ahead of the conference not to 'vote for or support any new taxes that increase the overall tax burden'. The 'Conservative Growth Group' pressure group of low tax-favouring Conservative MPs is now apparently 60 strong and members of the group made a number of calls for growth-stimulating tax cuts in Manchester.

Chancellor Jeremy Hunt and other senior ministers are at pains to explain how unhappy they are with the current level of taxes, and to emphasise their determination to bring them down as soon as circumstances allow.

Labour's language here is interesting. The party is emphasising that an incoming Labour government would not increase taxes on 'working people', instead generating additional revenue through economic growth. This appears to equate to a commitment not to raise rates of tax on work (i.e. income tax or national insurance) rather than a promise that a particular category of people will not face any tax increases!

Taxing income and gains

The most substantial tax announcement of conference season probably came from the Lib Dems – who announced in Bournemouth that they had dropped their policy of a 1p increase in income tax rates to raise additional revenue for health and social care. The party argues that it is no longer sustainable to raise personal taxes further at a time when the freezing of income tax and national insurance allowances and thresholds is already amounting to a tax rise equivalent to 4p on the basic rate.

The dropping of the policy became apparent in the party's 'pre-manifesto' – effectively the first draft of the manifesto for the general election expected next year. The pre-manifesto also confirmed that the Lib Dems remain committed to scrapping the separate capital gains tax allowance, though this is a less significant move when the exempt amount is £3,000 than when it was £12,300!

Labour had already ruled out increasing income tax rates ahead of the conference so attention in Liverpool focused on smaller taxes and more targeted personal tax measures.

Labour, like the Lib Dems, proposed to wrap capital gains tax into income tax back in 2019. It's unclear whether the Lib Dems still want to do this (a statement that they would 'treat income from wealth similarly to income from work' hints that they do) but Labour have confirmed that they don't. Shadow Chancellor Rachel Reeves told a fringe audience that 'preferential tax treatment' for wealth generators was an important element in growing the economy and that a 'wholesale equalisation' of income tax and capital gains tax could hurt investment in the UK.

Labour approved a ‘pre-manifesto’ of their own in Liverpool. It contains few surprises, on the tax front at least. On the personal tax side, the only measures – aside from a vague promise to crack down on evasion and avoidance – are commitments to treat carried interest as earned income rather than as a capital gain (so presumably raising the headline rate from 28% to 47%, once you include national insurance) and to remove the tax benefits of ‘non-doms’, which party leader Sir Keir Starmer, in his conference address, described as ‘a legal loophole that allows some of the richest people in the world to avoid paying tax in Britain’. Labour would replace it with ‘a system for genuinely temporary residents’ (no further details so far).

Fringe debate in Manchester highlighted that ‘family friendly’ tax policies are a key issue for many Conservatives. A group of MPs calling themselves the ‘New Conservatives’ set out a plan to reduce taxes on working families and small business, including abolishing the High Income Child Benefit Charge. The authors of the paper (MPs Miriam Cates and Nick Fletcher) also express support for the recent report by the Centre for Policy Studies and Ranil Jayawardena MP arguing for the personal allowance to be made fully transferable between spouses. ‘In the long run,’ the New Conservatives’ paper states, ‘we agree [with Jayawardena] that the UK should move to a system of household taxation.’

Taxing inheritance and property

Probably the best prospect of a tax policy punch-up at the next election is over inheritance tax, a levy which rouses strong feelings on both left and right. A media report in July suggested that the Conservatives might be considering an eye-catching plan to phase it out, while one in September claimed that Labour were considering scrapping – or at least reducing eligibility for – the tax’s business and agricultural property reliefs.

Conservative activists in particular are excited by the prospect of getting rid of what they call the ‘most hated tax in Britain’. But while former cabinet ministers (Priti Patel, Jacob Rees-Mogg, Andrea Leadsom…) lined up to champion its chucking, current ministers stayed mum on the prospect. It’s worth noting that ditching inheritance tax is largely a southern Tory enthusiasm – northern MPs who offered a

view seemed keener on cutting income tax.

Labour’s shadow ministers were similarly unrevealing about their intentions, saying only that they had no plans to change inheritance tax. They were clearer on a wealth tax, ruling it out. Shadow Financial Secretary James Murray told a fringe meeting that a Labour government’s focus would be on raising household incomes, going for growth and winning the trust of business. He said a wealth tax would not support these aims.

On property tax, Rachel Reeves confirmed a new Labour policy of raising the stamp duty land tax surcharge on overseas buyers. This would be used to pay for additional planning officers to help speed up planning decisions as part of the party’s plans to transform the planning system. The surcharge is currently 2%. It is not clear what it would rise to.

The Lib Dems, meanwhile, have adopted a housing paper which proposes a ‘locally led’ approach to second homes, giving local authorities the right to decide whether to level much higher rates of council tax and impose a stamp duty land tax surcharge on second home purchases in their area.

At the SNP conference in Aberdeen, the big tax news was the announcement by First Minister Humza Yousaf of a council tax freeze across Scotland next year. The Scottish government recently consulted on raising council tax rates for higher band properties but this now appears to be off the table for the time being. Earlier in the year, Yousaf expressed support for proposals for a new income tax band between the higher and top Scottish rates of tax. He did not mention this in his speech, but it may be that we hear more in December’s Scottish Budget.

At the CIOT/Institute for Fiscal Studies debate in Manchester, Conservative peer Lord Leigh of Hurley, a CTA and chair of the House of Lords committee reviewing draft tax legislation, suggested the government should increase council tax on the most valuable properties. Elsewhere on the fringe, former Trade Secretary Ranil Jayawardena said stamp duty land tax on main homes should be scrapped.

Corporate taxes

The government’s corporation tax increase – to levels close to those proposed by Labour at the last election – has rendered this area less contentious between the parties than in times past. However, the increase is highly unpopular with many Tories. ‘Deeply un-Conservative’, was the verdict of one veteran activist. Liz Truss called on the Chancellor to reverse the change at the Autumn Statement: ‘Put corporation tax back down to 19%, and frankly, if we can get it lower, the better.’

Chancellor Jeremy Hunt did his best to show he understood the unhappiness, and more than once said that his first priority, when the money becomes available, would be to lower taxes on business in order to generate growth.

In Liverpool, James Murray said Labour would publish a new ‘business tax road map’ setting out policies for the whole of the Parliament in order to give businesses ‘certainty and stability’. Rachel Reeves confirmed that Labour still want a higher energy profits levy (as do the Lib Dems). Labour’s pre-manifesto emphasises its support for both pillars of the current OECD-led work on the ‘fairer taxation of large multinationals’. Labour have said they would leave the bank surcharge at 3% but the Lib Dems want to put it back up to 8%.

Other business taxes and reliefs

Labour and the Lib Dems both want to replace business rates and the apprenticeship levy. But before getting too excited, it’s worth looking more closely. It is unclear at this stage how different Labour’s version of business rates would be from the current one. It would, it is clear, remain a business property tax – so far as we can tell, raising a similar amount to the current system. It would apparently ease the tax burden on bricks and mortar businesses (so presumably taxing online firms more). It would incentivise investment (especially the green kind), have more frequent revaluations and offer incentives for businesses to move into empty premises. Beyond this, it is unclear whether it would continue to be based on property rental values or – as with the Lib Dem alternative – underlying land values.

With the apprenticeship levy, Labour propose to reform it into a ‘Growth and Skills Levy’. Under the new system, companies would have the freedom to use up to 50% of their total levy contributions on non-apprenticeship training. The Lib Dems have

similar sounding plans for ‘a broader and more flexible skills and training levy’. Support for change of this kind is remarkably broad. Centre-right think tank Policy Exchange – which once had Michael Gove as its chairman – held fringe events at both Manchester and Liverpool to promote its report pushing in the same direction.

Labour want to encourage business investment and innovation, but their focus seems to be on improving existing tax incentives rather than designing something new. A paper published last December (not official policy but commissioned and welcomed by the leadership) says a Labour government should ‘maintain and build on the R&D tax credit system’, including looking ‘at whether there are ways to make the process less burdensome for firms, balancing that with the need to tackle fraud’. It encouraged Labour to commit to maintaining the SEIS, EIS and VCTs and to review whether their current scope and scale is sufficient. Labour has criticised the temporary nature of the full expensing regime but not so far committed to making it permanent.

As well as scrapping the child benefit charge, the backbench ‘New Conservatives’ Tax Plan’ contains two measures aimed at small business – raising the VAT threshold to £250,000 and reversing the recent IR35 reforms. Treasury Committee member Danny Kruger was supportive of the VAT change, saying VAT is difficult to register for and the current threshold means many businesses ‘bunch’ below the limit. Financial Secretary Victoria Atkins, on the same fringe panel, responded that the current threshold is higher than anyone in the EU. She said she gets lobbied by people who want it to go up but also by people who want it to go down. When she hears this, she says: ‘Crikey, at a time of cost of living crisis we don’t want to increase pressure on prices further!’

Labour, of course, propose to put VAT on private school fees and make the schools pay business rates. Rachel Reeves praised the policy in her keynote speech and defended it on the fringe, saying that even with behavioural changes it could raise substantial revenues.

Green agenda

And finally, while climate change was all over the conference agendas, discussion of green taxes was almost non-existent. The Lib Dems were something of an exception – passing proposals to ‘green’ stamp duty land tax and letting homeowners offset spending on insulation and heat pumps against income tax, as well as backing a 1p levy on new clothes (proceeds ringfenced for recycling) as part of a plan for ‘sustainable fashion’. However, the Conservatives are cooling on environmental policy, especially anything which will hit the public in their wallets, and while Labour have ambitious climate policies they too seem wary of anything which might be seen as adding to the cost of living for households or hindering the growth of businesses.

Towards the election

This was a conference season where tax did not dominate. HS2, Labour’s housing plans and reaction to the Hamas attack on Israel, to name just three, all had a higher profile. But we saw enough to give us a pretty good idea how the parties will fight next year’s general election.

The Conservatives are heavily dependent on the economy coming good in time to enable them to credibly offer tax cuts, either in the March Budget or in the election manifesto. Income tax and inheritance tax appear to be the two main taxes in the frame – and you’d have to be a brave person to bet against them offering something on both fronts.

Labour plan to fight the 2024 election like they fought 1997 – focusing attention on the Conservative record, projecting a message of reassurance and energising supporters with a small number of symbolic, but mostly modest, policies. Closing tax ‘loopholes’ to fund priorities is a key element of this. It would not be at all surprising to hear further announcements of this kind over the coming 12 months.

Ultimately, both strategies are less about detailed policies and more about the impression they give of the direction each party wants to take the country in. Both Sunak and Starmer think the voters want change and plan to present themselves as the change candidate. But they also want to project stability and reassurance. A tricky balancing act. Who will succeed? By this time next year we should have our

answer.

Full reports on the party conferences can be found at www.tax.org.uk/blog/1

© James McCauley/Shutterstock