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Looking Beyond UK Budget 2024: Priority Reforms for 2025

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Executive Summary

The Autumn Budget on 30 October will be a key moment for the new government. Chancellor of the Exchequer Rachel Reeves faces the dual challenge of needing to plug a substantial hole in the public finances while laying the groundwork for a transformative agenda that can drive prosperity in the years ahead.

A critical starting point on that long-term journey is updating the government's fiscal rules to unlock space for growth-enhancing investment. As the Tony Blair Institute for Global Change (TBI) has argued previously, we recommend a shift from the current debt measure (public-sector net debt) to public-sector net financial liabilities. This change both improves the internal coherence of the UK's fiscal rules and is the most effective way – within the other constraints of the chancellor's fiscal framework – to create extra room to borrow to invest. The government should use this space efficiently – ensuring that extra investment is well targeted to areas with the biggest growth and public-sector productivity benefits, and leaving a buffer to deal with unexpected events.

There will be many other consequential decisions at the end of this month, including tough tax and spending decisions to plug the fiscal hole. These will be necessarily constrained by the limited time between the election and the Budget. Tax changes will tend to focus on swiftly implementable tweaks to tax rates rather than wholesale tax reforms, while spending pledges are more likely to focus on the near term, with bigger longer-term decisions delayed until the spring when the Comprehensive Spending Review will conclude.

In that context, this paper aims to look beyond the Autumn Budget towards the next fiscal event in 2025. If the government acts quickly, there is an opportunity to announce significant reforms at the next fiscal event that will improve the efficiency of government, support growth and ultimately improve the UK's fiscal position. Specifically, we advocate for:

- **Investing in technology-enabled government:** Harnessing AI and other

digital technologies is the most realistic route to improving public-sector productivity and supporting long-term fiscal sustainability. Our previous analysis shows that investing £6 billion per year in AI-era technologies could generate up to £12 billion in annual net savings by the end of this parliament, with the potential for £37 billion by the end of the next. These technologies could also help deliver more effective public services and drive long-term growth, including by improving the health and educational attainment of the workforce. Some of the extra investment space created by changing the government's fiscal rules should therefore be used to pursue this transformative agenda.

- **Reimagining the tax and benefits systems through technology:** The tax system is overly complex, partly because it is trying to serve two purposes: revenue collection and redistribution through reliefs. The benefits system also provides reliefs, but uptake is partial and burdened by bureaucracy. This results in inefficiency and missed opportunities. We propose the government launch a commission after the Autumn Budget to explore how technology can streamline these systems, improve targeting of benefits, reduce non-take-up, and support economic growth. This commission should provide initial recommendations in time for the spring.
- **Long-overdue tax reforms:** Certain areas of tax policy, particularly property tax and motoring tax, are holding back growth and are long overdue for reform. 2025 arguably offers the best chance in a generation to implement reforms that would help unlock growth and improve fairness. We recommend changes in three areas:
    1. **Stamp-duty reform:** Allow households to spread the payment of stamp duty over 20 years through a government loan. This reform would remove the upfront tax penalty on mobility, encourage labour-market flexibility and support growth by making it easier for people to move for work.
    2. **Council tax reform:** Replace the existing council-tax system with a capped proportional levy set at 0.5 per cent of up-to-date property values but with a maximum and minimum payment threshold. This progressive reform would correct the inequities of the current system and incentivise homeowners in larger, underoccupied properties to downsize, improving housing-market fluidity and supporting

economic mobility.

3. **Introduce road pricing:** Rather than increasing fuel duty in the spring, introduce a simple pay-per-mile road-pricing system of 1p per mile for cars and vans, and 2.5p to 4p for heavy-goods vehicles. This reform would be revenue neutral compared with current plans to raise fuel duty but would be a crucial step in reforming the UK's system of motoring taxation for the electric-vehicle era. In doing so, it would help prevent a growth-stifling rise in road congestion.

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A Turning Point for the UK's Fiscal Strategy: From Immediate Challenges to Long-Term Opportunities

The chancellor's first Budget on 30 October will be a critical balancing act – both a key test of the government's fiscal credibility and ability to plug the hole in the public finances, and a pivotal moment to show how it intends to drive long-term economic growth. The challenge will be balancing immediate fiscal pain with a vision for long-term gain.

Since Labour took power, the chancellor has been preparing the ground for this moment. The pitch has been rolled for tough decisions on taxes and spending, and in the short term these are unavoidable. Partly this is down to politics: the previous government's £20 billion National Insurance cuts were unaffordable and did nothing to improve the Conservatives' electoral chances – a case of bad policy and bad politics that now must be corrected.

However, the need for tough choices also stems from a harsher fiscal reality. Economic growth remains sluggish, taxes are already near record highs, public spending is even higher and public services are failing to deliver. Without a surge in growth, tax hikes are needed just to balance the books and prevent further strain on already stretched services. Sensibly, the chancellor's "golden rule" – that taxes must cover day-to-day spending by the end of the forecast period – means that any additional current spending on public services will need to be matched with tax rises.

Yet it is crucial that this Budget doesn't only deliver short-term fixes – it must signal a broader vision for Britain's future. The government must show that the immediate pain will be worth it in the long run. This Budget needs to be part of a plan to reignite growth, improve the efficiency of public services, create fiscal space and, eventually, make tax cuts a realistic possibility.

Those long-term goals are just as important as the immediate need to plug the fiscal gap.

The chancellor can provide a downpayment on that future vision by borrowing to invest. Public investment is vital – not only to catalyse private-sector investment but also to drive the productivity gains needed across public services. Without it, the long-term growth the chancellor seeks will remain elusive.

To unlock additional room for investment, the chancellor will need to adjust her second fiscal rule that public-sector net debt (excluding the Bank of England) must be falling as a share of gross domestic product (GDP) at the end of the forecast period. This rule, inherited from the previous government, needlessly constrains investment. To address this, the chancellor should update the definition of debt to better reflect the assets on the public sector's balance sheet.

As we have argued before, the chancellor should shift the focus to public-sector net financial liabilities. This more comprehensive measure would free up as much as £52 billion in borrowing capacity each year, creating much-needed room for investment while also retaining the rest of the fiscal framework the chancellor has already committed to.

Not all of this headroom should be used immediately. Investment needs to be well planned and well targeted to ensure it is used to fund productive investment. Giving the Office for Budget Responsibility (OBR) a stronger role in assessing the growth impact of investments would help reassure financial markets the government is serious about enacting transformational reform in a fiscally responsible way. Even tapping into just half of this additional space would sustain public-sector investment at its current level of 2.5 per cent of GDP, preventing a sharp decline.

While many other key decisions will be made in this Budget, they will have been constrained by timing. Spending pledges are more likely to focus on short-term priorities over the next two years, with longer-term, more strategic decisions postponed until the spring, when the Comprehensive Spending Review concludes. Similarly, tax changes are likely to target

adjustments that can be implemented quickly – such as tweaks to tax rates – rather than sweeping reform.

With that in mind, this paper looks beyond the immediate Autumn Budget and towards 2025. It outlines three areas where the chancellor should direct her focus to transform government, unlock fiscal space and boost economic growth. This includes bold investment in technology-enabled government, reimagining the tax and benefits systems for the 21st century, and implementing long-overdue reforms to property and motoring taxes that are holding back growth.

Harnessing Technology to Transform Public Services and Strengthen Fiscal Sustainability

This parliament will coincide with a period of rapid technological advancement, especially in the field of artificial intelligence. By embracing technological innovation, the government could transform the public sector – making it more efficient, cost-effective and capable of delivering better outcomes for citizens. This is the most realistic route to improving public-sector productivity: delivering better services at lower cost.

Analysis by the Tony Blair Institute for Global Change (TBI) in *The Economic Case for Reimagining the State* suggests that investing around £6 billion per year (0.2 per cent of GDP) in AI-era technology across key public services could yield significant net fiscal savings of up to £12 billion per year by the end of this parliament (0.4 per cent of GDP), and up to £37 billion per year (1.3 per cent of GDP) by the end of the next. But the benefits go beyond just fiscal savings: embracing AI in the public sector also has the potential to boost long-term growth by improving workforce health and education, and to raise the quality of public services.

For example:

- **AI-driven efficiency**: Introducing AI across the public-sector workforce could save up to 20 per cent of workers' time, enhancing service delivery. If these time savings were used to reduce the size of the workforce, it

could save up to £10 billion per year by the end of this parliament, rising to £34 billion by the end of the next.

- **Preventative health care**: Investing in digitally enabled preventative health care could improve the health of the population, the health of the economy and the health of the public finances. Even a narrow preventative programme focused on cardiovascular disease could increase employment by 70,000 people and generate £600 million in savings to the Exchequer by the end of this parliament, doubling to £1.2 billion by the end of the next.
- **Digital ID**: Implementing a digital-ID system would improve how citizens interact with government services, saving time, simplifying access and personalising services. Once fully operational, it could also generate £2 billion annually by reducing benefit fraud, improving tax collection and targeting welfare payments more effectively.
- **AI in education**: AI could enhance teaching quality, save teachers' time and help students absorb content more effectively, leading to a 6 per cent increase in educational attainment. Over time, these improvements could boost UK GDP by as much as 6 per cent.

In light of the UK's fiscal challenges and the pressure on its public services, harnessing the transformative potential of technology should be central to the government's reform agenda. The chancellor should direct a portion of the fiscal space unlocked by updating the fiscal rules towards these tech-driven innovations, ensuring not only a more sustainable fiscal future but also higher-quality public services and stronger long-term economic growth.

Reimagining Tax and Benefit Policy Through Technology

The current tax and benefit systems are mired in complexity, leaving individuals and businesses to navigate a maze of programmes – many of which overlap or contradict each other. These legacy systems rely heavily on people actively claiming support, leading to significant underclaiming. Too many individuals miss out on the benefits they are entitled to, while the systems themselves become more convoluted in an attempt to address the

same objectives in multiple, often contradictory, ways.

This is despite the fact that in many instances, the government already holds the necessary data to target support more effectively. However, outdated administrative structures prevent departments from sharing this information in a way that would simplify the process and improve delivery. A modern, integrated system would allow seamless data sharing across government, enabling support to be more precisely targeted and reducing unnecessary complexity.

The goal should be to streamline the tax system while using the benefit system to deliver well-targeted support, harnessing the wealth of information the government already holds.

Take, for example, the current use of zero and reduced value-added-tax (VAT) rates to support lower-income households. The rationale is simple: low-income groups spend a larger proportion of their income on essentials like food, energy and children's clothing. However, this method is highly inefficient. Higher-income households still benefit more in cash terms from reduced rates, simply because they spend more overall. At the same time, many vulnerable individuals miss out on benefits they are entitled to, with an estimated £19 billion of support unclaimed in 2023–24 alone.

The cost of maintaining zero and reduced VAT rates is substantial – more than £50 billion in 2023–24.[1] If the government could automatically deliver benefits to those eligible, it would not only ensure that fewer people miss out on support but also allow for higher benefit payments to compensate them for higher prices of goods that currently have reduced VAT rates. This would free up significant resources, allowing other tax reductions while ensuring that support is targeted at those who need it most.

A similar issue exists in business taxation. Numerous schemes exist to encourage entrepreneurship but many are poorly targeted. They often end up benefitting those who are already successful – such as through capital-gains-tax relief on business-asset disposal – or provide blanket support to small businesses without differentiating between those that genuinely need help to start up and those that do not. By using existing government data

more effectively, support could be better directed towards genuinely entrepreneurial ventures in need of assistance.

Transforming the tax system in this way is not an overnight task. It's a long-term project that will require a careful, phased approach – identifying opportunities for simplification and building the necessary administrative infrastructure. We propose that the chancellor establish a commission to identify early examples where this approach could be implemented, with a view to reporting initial findings in the spring. This commission would also lay out a longer-term roadmap for reform, setting the stage for simpler, more efficient tax and benefits systems that are better suited to the needs of a modern economy.

Unlocking Growth Through Long-Overdue Tax Reforms

There are still long-standing inefficiencies in the UK tax system that need urgent reform. Many of these inefficiencies, long avoided due to their political sensitivity, are holding back growth. With its historic majority, the new government has the best chance in a generation to grasp the nettle on these reforms and position the UK for future success.

In the following chapters, we delve into two areas where the chancellor could take bold action next year: property-tax reform and the introduction of road pricing. Both of these reforms would complement the efforts to modernise the tax and benefit system, driving growth and setting the stage for a more sustainable and prosperous future.

03 Fixing the Foundations: Property-Tax Reform to Support Growth

The UK's property-tax system is holding back growth. Stamp duty – a tax on property transactions – discourages people from moving, limiting geographic mobility and reducing the fluidity of the housing market. It not only adds to the financial strain on first-time buyers but also hampers workers' ability to relocate for better job opportunities, ultimately holding back productivity growth. Council tax, which is based on 1991 property values, is regressive and misaligned with current market realities, discouraging efficient use of housing, especially among older homeowners who underoccupy large homes and have little incentive to downsize.

Economists largely agree on what needs to be done – replace stamp duty and council tax with an annual property-service tax linked to the value of each property. But shifting to such a system is very challenging – technically and especially politically. Successive governments have failed to grasp the nettle. Moving to such a system in a single bound seems politically unworkable, but the new government with its historic majority has a once-in-a-generation opportunity to take a significant step on the path to creating a more growth-friendly property tax system. We propose two significant reforms:

1. **Rather than requiring stamp duty to be paid upfront, households should be given the option to spread payments over 20 years through a government loan.** This loan would be financed at a fixed rate of interest linked to the government's rate of long-term borrowing, and crucially, any household that moves within 20 years would not need to pay off the remainder of their loan. This latter change could have a small negative impact on government tax revenue as households who move home more frequently would be paying less tax (on average, owner-occupiers in houses above the stamp-duty threshold spend 26 years in their home) but by incentivising movement this reform would also remove one of the most damaging aspects of the current system and hence stimulate growth and generate other tax revenue.

2. **Replace the current inequitable system of council tax with a capped proportional levy based on up-to-date property values.** This levy would be equal to 0.5 per cent of the value of each property but with a minimum payment of £1,350 for properties worth less than £270,000 – to ensure sufficient funding for local authorities – and a maximum cap of £6,250 for properties worth more than £1.25 million – to avoid a replay of the "mansion tax" debate of the mid-2010s and overly penalising the asset rich but cash poor. This change would see 12.3 million households gain at least £100 through lower council-tax bills – mostly in lower-priced properties outside of London. A much smaller number of households – 4.1 million – would lose out, mainly those at the upper end of the income spectrum but also many less well-off households in London. The remaining 7.4 million households would see their net incomes change by less than £100. Not only would this system be more progressive, but it would also create more of an incentive for older homeowners in high-value properties to downsize – supporting the fluidity of the housing market and ultimately economic growth.

The Status Quo

There are two main taxes on property in England, both of which are in dire need of reform.

Stamp-duty land tax (henceforth referred to as stamp duty) is a tax on property transactions that discourages geographic mobility by imposing an additional tax charge on those purchasing a property. It also makes it more difficult for prospective first-time buyers to move into home ownership by adding to the upfront cost of purchasing their first property. Although the structure of stamp duty has been reformed to remove the slab structure that imposed big jumps in tax liabilities for properties above certain thresholds, there is still no economic rationale for imposing a transaction-based tax. Those who move house more often are no richer than those who remain in the same home for a longer period. Nor is this a socially undesirable activity that policy would want to discourage – on the contrary. Unlike council tax, stamp duty is highly progressive, with no tax at all on transactions below £250,000 but very high charges on purchasing an

expensive property.[2]

Council tax is a recurrent tax on those who occupy a residential property. Properties in England were placed in one of eight bands in 1991 based on their value at that time, with those in the highest band paying three times the amount paid by those in the lowest. The tax is thus based on values that are more than 30 years out of date and imposes a larger burden on those in lower-value properties than those in more expensive ones. This is not only unfair but leads to economic inefficiency. Undertaxation of high-value properties weakens the financial incentive for those who are underoccupying these properties – for instance, older people whose children have left home, or retirees who no longer need to live in commuting zones around major cities – to move to cheaper accommodation. Bringing taxes more closely in line with property values would therefore potentially free up sought-after properties that have better access to labour markets, enabling workers to take up more productive employment.

The “Optimal” Tax Structure and the Political Challenges That Prevent It From Being Implemented

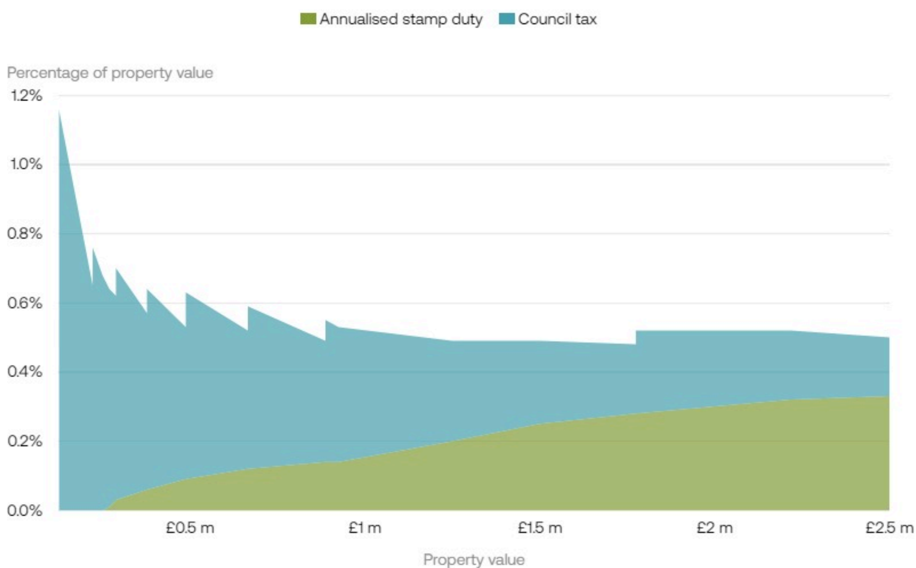
The optimal structure for property taxation – that is, the way to raise revenue and achieve redistribution in the most growth-friendly way – is well-known: a single annual charge based on up-to-date property values. This was the reform argued for by the Mirrlees Review of the UK’s tax system, led by the Institute for Fiscal Studies and published in 2011.[3] The rationale for such a tax is that it substitutes for VAT on the consumption of housing services. It also partly represents a tax on land, a form of taxation generally favoured by economists as the supply of land is fixed and cannot be reduced by taxation.[4]

In one sense, the UK is not too far away from such a system. The combination of a regressive annual property tax and a progressive transactions tax results in a system that is closer to being proportional – with most households paying a similar percentage of their property value

over the whole length of time they live in a particular property. On average, properties above the current stamp-duty threshold (worth more than £250,000) change hands every 26 years.[5] Whether they purchase a cheap or an expensive property, if a family remains in a property for this long, they will pay roughly the same proportion of the property value over the period as a whole.

FIGURE 1

Annualised property taxes as a share of property value, 2024–25



The blue line shows council-tax liability in a local authority with the average Band D rate for England and house-price growth in line with the average for England since 1991.

Source: TBI calculations using Office for National Statistics House Price Index data and Department for Levelling Up, Housing and Communities council-tax data

Where the UK's system differs from an optimal one is that stamp duty is an upfront transaction-based tax and that the property values used for council tax are more than 30 years out of date. These both create unfairness and inefficiency – there is no logical reason for taxing those who move house

more frequently than those who remain in the same home for longer, nor any reason to believe that a household's ability to pay tax is more closely related to their property's value in 1991 than its current one. The prospect of having to pay stamp duty may result in workers not moving house to take up a better-paid job. And using outdated property values to assess council-tax liabilities leads to council tax achieving less redistribution than it otherwise would for no clear benefit.

Yet there has been little movement towards a more rational model in the past two decades. Although (as noted above) there have been some sensible reforms that have removed some of the distortions of stamp duty, proposals to do the same with council tax have failed. A revaluation of property values was announced in 2001 to come into effect in 2007 based on 2005 property values, but this was abandoned in late 2005 with most valuations having been completed.[6] Governments since then have eschewed any attempt to undertake a council-tax revaluation. Proposals to increase annual taxes on high-value properties were included in the 2015 general-election manifestos of both Labour and the Liberal Democrats through the introduction of an additional "mansion tax" on properties worth more than £2 million, but both parties subsequently dropped the policy given the political difficulty of implementing it.

There seem to be three key objections to replacing both council tax and stamp duty with a single annual charge:

- **Unpopularity of recurrent property taxes:** Increases in council tax were among the least popular tax rises in recent polling.[7] The idea that one should have to keep on paying tax on something that one already owns appears intrinsically unfair to many people. Even though it is a less economically efficient way of raising revenue, people may prefer the one-off payment of stamp duty.
- **Liquidity issues:** For owner-occupiers, there is no income stream attached to property ownership; annual property taxes must be paid out of other income or savings. This can lead to property owners facing tax charges that are very burdensome – as would have been the case with the "mansion tax". A purely proportional tax set at a rate that would be sufficient to replace the revenue from council tax and stamp duty would

lead to some households facing recurrent property taxes of more than £10,000 per year – more than twice the amount they currently pay in council tax. Increasing recurrent property taxes to these levels would lead to concerns about those who are asset rich but income poor. Means-tested support schemes are available in all English local authorities and provide a full rebate for those who are above state-pension age and on the lowest income. However, take-up is far from complete.[8] For all the problems with a transaction-based tax, the advantage of stamp duty is that tax payments are made at the point when homeowners are able to pay the tax, in contrast to a recurrent tax where tax liabilities continue to be incurred into subsequent periods when homeowners may be less able to pay.

- **Transitional issues:** Revenue-neutral reforms to the property-tax system will inevitably create both winners and losers, with the latter often being the most vocal. Replacing both council tax and stamp duty with a proportional tax set at 0.65 per cent of a property's current value would increase recurrent property taxes for 9.2 million households and reduce them for 4.6 million, with 10.1 million seeing little change – a difficult sell. Of course, those who moved home would no longer have to pay stamp duty. But there would no doubt be much resentment from those who had moved shortly prior to the introduction of the reform, as they would be facing higher recurrent taxes after having recently paid a large one-off tax. For these households, an additional tax hike could be perceived as "double taxation", adding to the resistance against reform. Moreover, there is a risk that abruptly shifting from one property-tax regime to another could result in a fall in house prices for those properties facing a much higher recurrent tax bill. This in turn could potentially threaten financial stability by raising the number of homeowners in negative equity.
- **Inequalities in tax base between local authorities:** Council tax is the only tax where local authorities have tax-varying powers. Moving to an annual charge that was purely proportional to property values would reduce the ability of local authorities in areas where property prices are lower to increase spending by raising tax rates, or at least would require extremely high tax rates on properties in these areas that would negate the objective of the reform. For example, a purely proportional tax set at 0.65 per cent of property values would reduce the tax base of Blackpool

Council by 45 per cent. It would also require big changes to the size of grants given to local authorities, with those in areas with low property values becoming even more reliant on grant funding from central government and those in the most expensive areas having a "negative grant", breaking the link between local taxes and spending. The regressive nature of council tax at least allows local authorities to make meaningful decisions about the level of spending in their areas.

Our proposed reforms acknowledge these constraints and aim to design a politically implementable set of changes that fix the most egregious problems with the current system, and represent two significant steps towards a purely proportional system. The following section describes these proposals in more detail.

The Solution: Reform Stamp Duty and Council Tax

STEP 1: STAMP-DUTY REFORM

We propose the following reforms to stamp duty:

- **Rather than paying stamp duty up front, we propose that property purchasers are given the option to spread stamp-duty payments over 20 years.** This would reduce the amount of savings that first-time buyers have to accumulate before they can move into home ownership. Previous TBI research has shown that this is a substantial obstacle.
- **Homeowners who move within 20 years would not have to pay the remaining balance on their stamp-duty loan, effectively creating a stamp-duty discount for those that move more frequently.** This would significantly weaken the disincentive for onward mobility associated with stamp duty. Stamp duty would thus become much closer to an annual tax without creating the problems associated with a recurrent levy for those who are liquidity constrained – those who intended to stay in their new home long-term and anticipated their income falling would retain the option of paying stamp duty up front.[9]
- **This should be facilitated through a loan that would be treated as an asset in the public finances.** Homeowners would be able to repay the

stamp-duty loan on a monthly or annual basis, similarly to a mortgage, but with interest charged at (or just above) the government's more favourable long-term rate of borrowing.[10] By administering the reform as a loan scheme run by HMRC, similar to a student loan, it would create a public-sector financial asset, which would not therefore add to the deficit or public-sector net financial liabilities, other than through the portion of payments that would be written off as homeowners moved on before the 20 years were up. The revenue impact of this change is likely to be limited since on average residential properties change hands only every 26 years. There would be some deadweight costs of the reform, as those who would have moved within 20 years anyway would pay less tax, but there would also be some additional revenue if people moved more frequently in response to the scheme and if that increased dynamism boosted economic growth.

The impact of this reform on transaction numbers could be considerable. Hilber and Lyytikäinen (2012) estimate that a 2 percentage point notch in the old "slab" stamp-duty system reduced transactions by 40 per cent.[11] An owner-occupier purchasing a property for £420,000 pays stamp duty of 2 per cent of the property value, so a reform that reduced the penalty for moving house could potentially lead to a significantly larger number of transactions, particularly for higher-value properties. This would reduce the "sticker price" of the reform considerably.

With such a large impact on transactions, the potential economic gains from such a reform could be large. However, its size is less certain: Hilber and Lyytikäinen caution that the impact on moves for employment purposes is likely much smaller and cannot be precisely estimated. Still, if even a small proportion of the additional house moves induced by the reform enabled workers to take on better jobs, the impact on labour-market dynamism could be substantial.

STEP 2: COUNCIL-TAX REFORM

Our proposed changes to council tax represent a more significant change to tax liabilities. We propose a reformed council tax with the following features:

- **A capped proportional levy** set at 0.5 per cent of a property's current value but with a minimum payment of £1,350 for all properties below £270,000 and a maximum payment of £6,250 for all properties above £1.25 million.[12]

FIGURE 2

Council-tax liabilities before and after reform

The blue line shows council-tax liability in a local authority with the average Band D rate for England and house-price growth in line with the average for England since 1991.

Source: TBI calculations using Office for National Statistics House Price Index data and Department for Levelling Up, Housing and Communities council-tax data

The minimum cap is required for two reasons. First, it chimes with the idea held by many people that council tax is a charge for the provision of council services and everyone should make a reasonable contribution. Second, and more substantially, it prevents the tax base of local authorities in areas with low property values falling too steeply (see boxout below). By contrast, the maximum cap is included to limit the losses for those in higher-value properties to avoid very severe liquidity constraints for the asset-rich, income-poor homeowners. Concerns about big losses for this group

torpedoed the “mansion tax” proposals. It would also avoid any sharp correction in house prices that might pose a risk to financial stability. Nor is a maximum payment necessarily unfair – when this council-tax reform is combined with the already highly progressive nature of stamp duty, owners of high-value properties (for instance, £2.5 million houses) are still paying a similar percentage of their property value over the whole period of property ownership to owners of lower-value properties (for instance, those worth £500,000). Moreover, these minimum and maximum thresholds could be gradually removed over time by increasing the point at which the maximum charge applies (in line with annual house-price inflation) and by freezing the minimum charge.[13]

- **Council-tax charges would be based on current property prices, with a nationwide revaluation exercise implemented on the introduction of the new tax, with annual adjustments thereafter and on the sale of property.** The Valuation Office Agency (VOA) should be asked to conduct a revaluation of all properties over the next 12 months and the change should be implemented as soon as possible after that. There would be opportunities for taxpayers to appeal the valuation, but several features of the tax mean that these should be relatively few. First, since the proposed tax rate is low, small inaccuracies in the property valuation would not materially affect tax liabilities. The VOA may choose to give a narrowly banded property value so that only more significant errors in property valuations would give rise to changes in tax liabilities at all. Second, for those properties subject to the maximum or minimum payments, even large errors would not affect tax liabilities. We estimate that 10.7 million properties would be subject to the minimum payment in their local authority and 270,000 of the most expensive properties – which would be the hardest to value – subject to the maximum rate. From then on, property values could be estimated by uprating the initial valuation in line with local house-price growth as measured by the ONS’s local house-price index. Changes in individual house values, for example resulting from improvement works carried out by owners, would only be considered at the point of sale, at which point the actual price paid could be used to update the property value. This method of revaluation would thus avoid discriminating against homeowners who invest in their

properties – a vital incentive given the low quality of the UK's housing stock.

- **Local authorities would be free to add a local surcharge to pay for additional spending.** The revised system would give local authorities choice over how to top up three parameters – the minimum charge, the proportional tax rate and the maximum charge – rather than just one, as at present. This would enable those who wished to tax more expensive properties more heavily to do so, whereas those who wanted to share the burden more widely would also be able to increase the minimum charge.

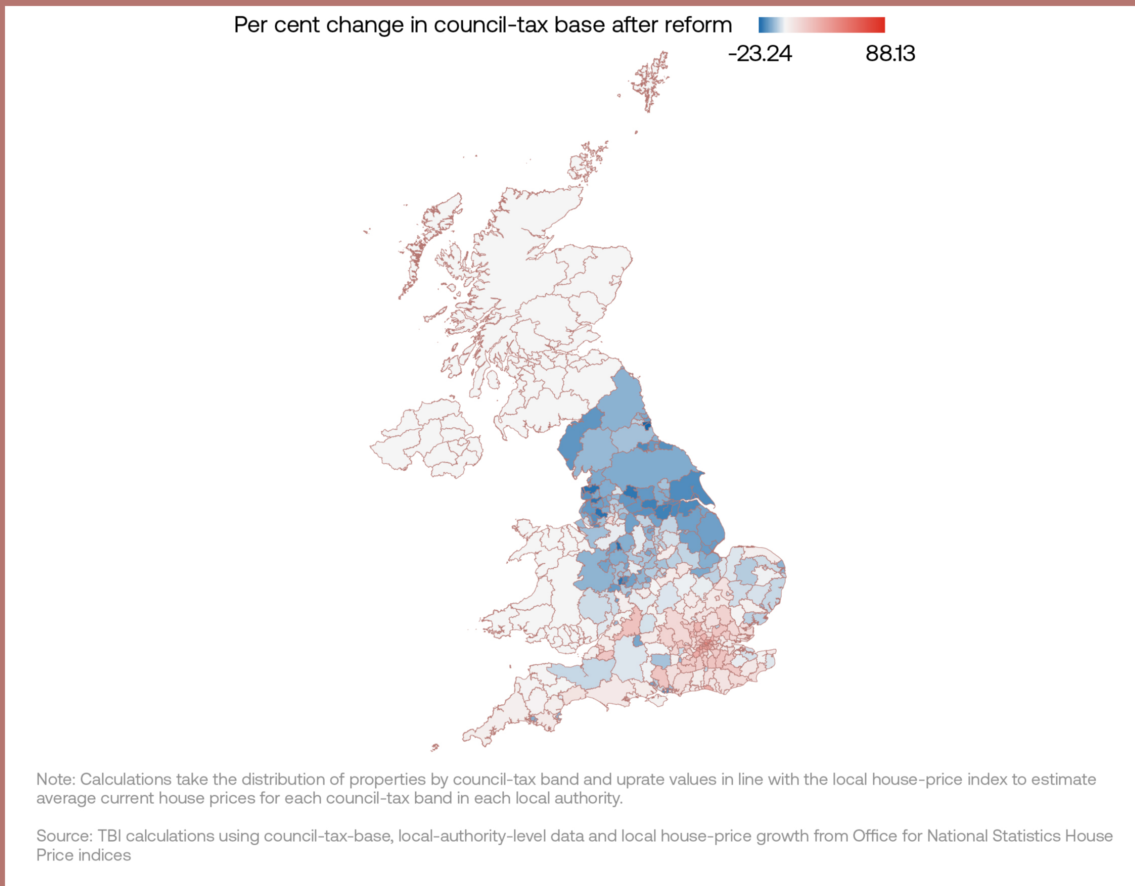
The Impact of Council-Tax Reform on Local-Authority Funding

Local authorities receive funding through locally raised taxes – council tax and business rates – and from grants from central government. Typically, grants are lower for those local authorities with a greater ability to raise revenue from council tax. Moving to a proportional system based on updated property values would affect the tax bases of different authorities and require a redistribution in grant funding so that all local authorities would be able to achieve similar levels of service provision with the same tax rates. This is partly because our reform involves higher taxes for the highest-value properties, which are concentrated in and around London, and partly because of differential house-price growth between local authorities since 1991. Figure 3 below gives a sense of the expected changes in tax bases across local authorities in England.

Under our reform, the largest increase in the council-tax base would be in Westminster, which would experience an increase of 49 per cent. But the central government would still award a grant to the Westminster City Council; all of the revenue raised by the reformed council tax would be spent locally. At the other extreme, the tax base of Sunderland City Council would reduce by 23 per cent, which could easily be made up for by increasing the grant it receives from the central government.

FIGURE 3

Changes in England in local authorities' tax bases after council-tax reform



Note: Calculations take the distribution of properties by council-tax band and uprate values in line with the local house-price index to estimate average current house prices for each council-tax band in each local authority.

Source: TBI calculations using council-tax-base, local-authority-level data and local house-price growth from Office for National Statistics House Price indices

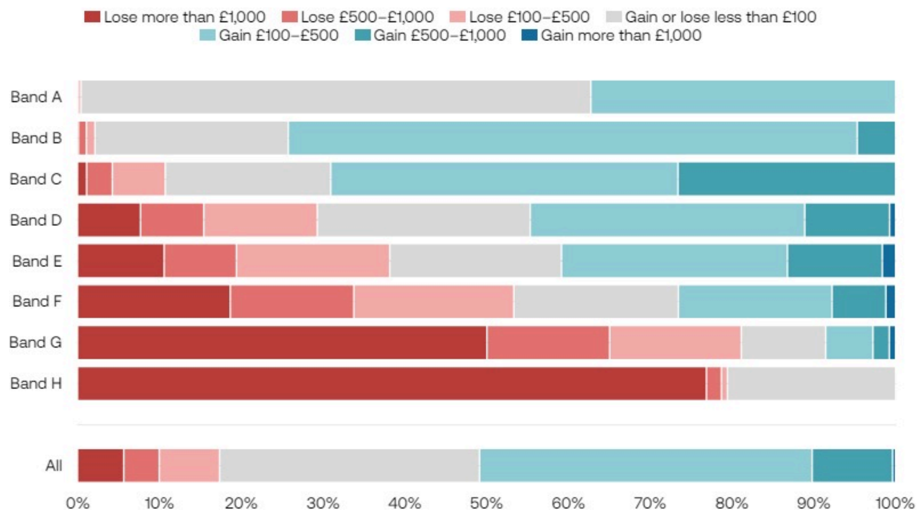
Winners and Losers

Overall, 12.2 million households in England would gain at least £100 a year from this reform, with 4.1 million losing out. The remaining 7.6 million households would see their net incomes change by less than £100, either because their underlying council-tax liability does not change significantly or because they are entitled to council-tax support and so any change in liability is offset by higher or lower support payments.[14]

As intended, the majority – 57 per cent – of those who see higher council-tax liabilities are those in more expensive properties in council-tax bands E to H under the existing system.

FIGURE 4

Winners and losers by council-tax band



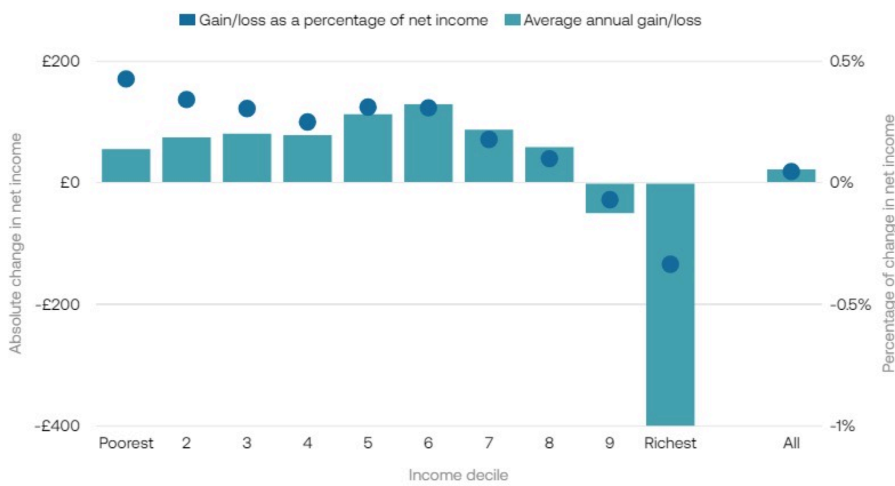
Calculations assign each observation in the 2022–23 Family Resources Survey to a local authority based on their observed region and council-tax band. Council-tax band and local house-price growth since 1991, taken from the Office for National Statistics House Price index, are used to estimate current property value.

Source: TBI calculations using UKMOD version B2024.14 run on data from the 2022–23 Family Resources Survey. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis at the Institute for Social and Economic Research (ISER), University of Essex. The results and their interpretation are the authors' sole responsibility

It is also mainly those on higher incomes who lose out – half are in the richest fifth of households. Examining average gains and losses by income group shows that only the top two income deciles lose out in aggregate – though this disguises substantial variation within each decile.

FIGURE 5

Average gain or loss by income decile



Calculations assign each observation in the 2022–23 Family Resources Survey to a local authority based on their observed region and council-tax band. Council-tax band and local house-price growth since 1991, taken from the Office for National Statistics House Price index, are used to estimate current property value.

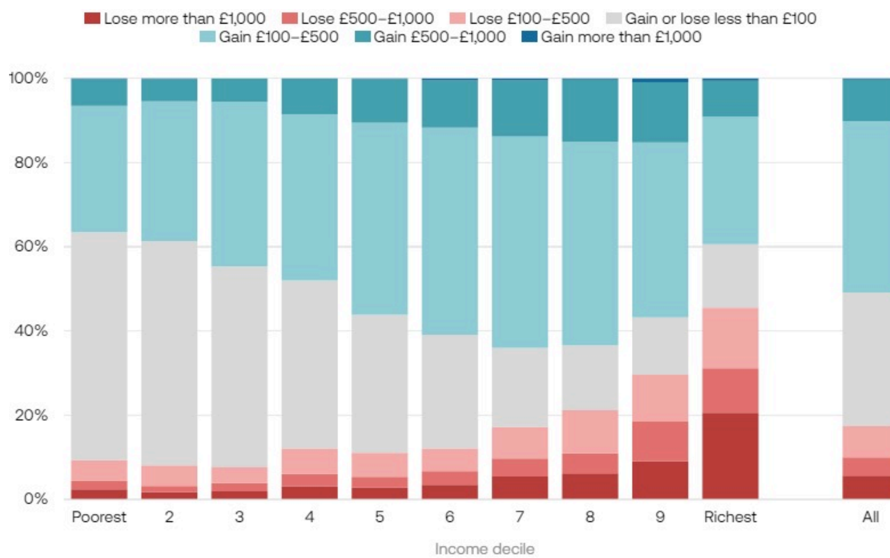
Source: TBI calculations using UKMOD version B2024.14 run on data from the 2022–23 Family Resources Survey. Income-decile groups are derived by dividing all households in England into ten equal-sized groups according to income adjusted for household size using the modified OECD equivalence scale. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis at the Institute for Social and Economic Research (ISER), University of Essex. The results and their interpretation are the authors' sole responsibility

Looking at the pattern within income groups, the imperfect correlation between income and wealth means that not all losers are among high-income groups. Indeed, winners are most heavily concentrated in the upper middle of income distribution. Poorer households are more likely to receive means-tested council-tax support and thus be less affected by changes in council-tax liabilities. Nevertheless, this is clearly a progressive reform: more

than half of those who lose more than £1,000 a year are in the richest fifth of households, and the richest tenth is the only income decile group where losers outnumber winners.

FIGURE 6

Winners and losers by income decile



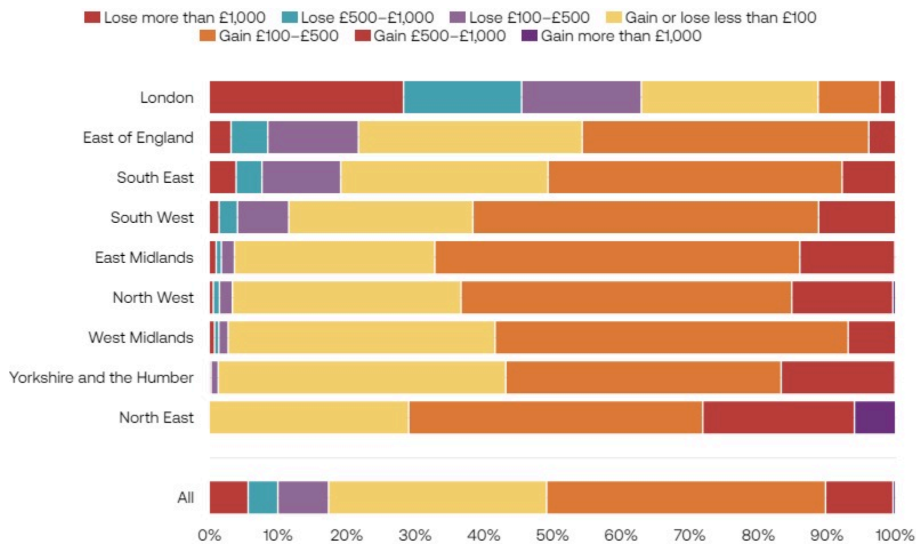
Source: TBI calculations using UKMOD version B2024.14 run on data from the 2022–23 Family Resources Survey. Income-decile groups are derived by dividing all households in England into ten equal-sized groups according to income adjusted for household size using the modified OECD equivalence scale. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis at the Institute for Social and Economic Research (ISER), University of Essex. The results and their interpretation are the authors' sole responsibility

On a regional basis, London would see the heaviest concentration of losers, with more than a quarter of households losing more than £1,000 a year and only 11 per cent of households gaining more than £100. This reflects both high average house prices in London but also the fact that some London councils – such as Westminster – currently charge very low rates of council tax compared with the national average. By contrast, in areas that have seen relatively slow house-price growth since 1991 – particularly in the North and

Midlands – there are very few losers. The reform thus creates a small financial incentive to incentivise movement out of the capital.

FIGURE 7

Winners and losers by region



Calculations assign each observation in the 2022–23 Family Resources Survey to a local authority based on their observed region and council-tax band. Council-tax band and local house-price growth since 1991, taken from the Office for National Statistics House Price index, are used to estimate current property value.

Source: TBI calculations using UKMOD version B2024.14 run on data from the 2022–23 Family Resources Survey. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis at the Institute for Social and Economic Research (ISER), University of Essex. The results and their interpretation are the authors' sole responsibility

Overall, with three times as many winners as losers, this reform should be attractive to policymakers. It would also produce a much fairer system. Those who would lose are unfairly benefitting at present from several features of the council-tax and local-government financing systems: the regressive structure of council tax as set up in 1991, the lack of revaluation since then in spite of differential house-price growth across England and the over-funding of London councils, which allows them to offer lower Band D rates than other local authorities. But there would also be economic-efficiency gains: higher tax rates for more expensive properties would

encourage those who no longer need to live in larger properties or better-connected areas to vacate these sought-after properties for those who do. It could potentially provide a not-insubstantial boost to economic growth, too.

04

The Road Ahead: Modernising Motoring Taxes With Road Pricing

A key choice facing the chancellor is what to do with fuel duty. Under the previous government's pre-election plans it was set to rise in the spring for the first time in 14 years – a rise that would bring in £3.3 billion of much-needed revenue. Given the hole in the public finances and the government's strict fiscal rule to bring the current budget into balance, the chancellor has little choice but to increase taxation on motoring.

This may be unpopular, but it is economically rational and ultimately good for growth. By failing to raise fuel duty since 2011, successive governments have reduced the cost of motoring in real terms and in so doing have inadvertently added congestion to the UK's roads. Government estimates suggest that congestion costs society £120 billion a year in inefficiency and delays, which is a drag on growth.

Rather than raising fuel duty in the spring, the government should use this opportunity to introduce a simple form of road pricing. By charging 1p per mile for all cars and vans, and 2.5p to 4p per mile for heavy-goods vehicles, the chancellor would raise the same revenue as the planned fuel-duty hike and the average motorist would be no worse off. At the same time, it would be a crucial first step on the road to reforming the UK's system of motoring taxation for the net-zero era.

As electric vehicles become more prevalent on the UK's roads, the government stands to lose about 1 per cent of GDP in fuel-duty revenue. Without a new form of motoring taxation that applies to electric-vehicle drivers, they will be incentivised to drive more and add to congestion. Under some government projections, the cost of congestion could more than double by 2050.

Under our proposals, the government would hold fuel duty at its current level and instead add a rising pay-per-mile charge on almost all road users – both electric and conventionally powered vehicles. By design, our proposed

system works to maintain motoring-tax revenue in real terms despite increasing electrification. Compared to plans inherited from the previous government, our reforms would raise almost £3 billion of extra revenue per year by the end of this parliament and almost £10 billion per year by the end of the next.[15]

We recommend implementing a flat per-mile charge in the first instance – verified and paid during mileage checks at MOTs – to establish a system that is easy to understand and can be implemented quickly. But over time, as road-pricing charges rise to replace lost fuel-duty revenue, account for inflation and offset some of the social costs of congestion, the government should look to deploy technology to make it more targeted. This could include using telematics to lower the per-mile cost during off-peak driving times.

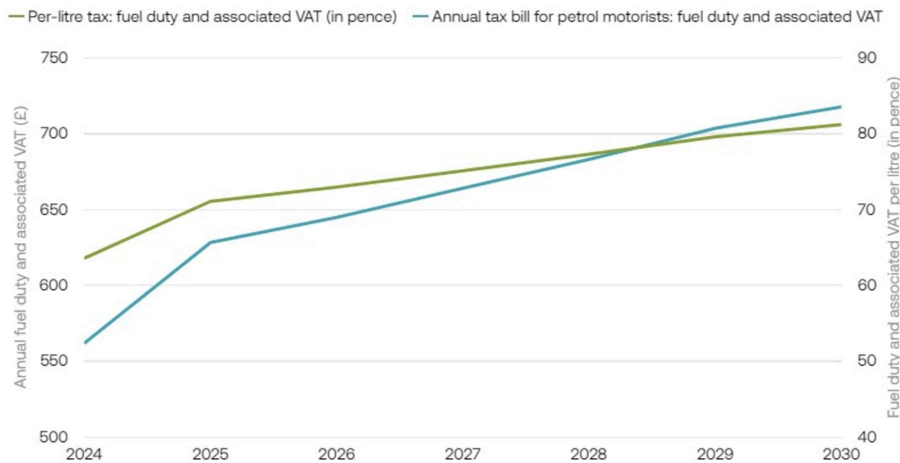
The Status Quo

Fuel duties are the direct taxes levied on the purchase of a variety of fuels, including petrol and diesel. They are also a major source of tax revenue worth almost £30 billion this fiscal year, or more than 2 per cent of total government receipts. [16,17]

Under the previous government's pre-election plans, fuel duty was set to rise significantly in the spring. It was due to increase by 5p per litre in March 2025 (to reverse the "temporary" cut introduced in March 2022) and a further 1.3p in April 2025, in line with the rise in retail-prices-index (RPI) inflation[18] (it was then set to rise by the rate of RPI inflation every April thereafter). As VAT on fuel is levied on the combined underlying cost of fuel and the applied fuel duty, the planned uplifts also carried an additional 20 per cent VAT element. As such, the 6.3p fuel-duty uplift in spring next year would in fact increase pump prices by 7.5p per litre. If enacted, these rises would raise £3.3 billion in extra revenue and would increase the annual costs for the average petrol-car driver by about £70 in 2025, and by more than £140 by the end of this parliament.[19]

FIGURE 8

Evolution of fuel-duty rates (and associated VAT) under the previous government's plans in both pence per litre and annual tax bill for a typical petrol-car driver

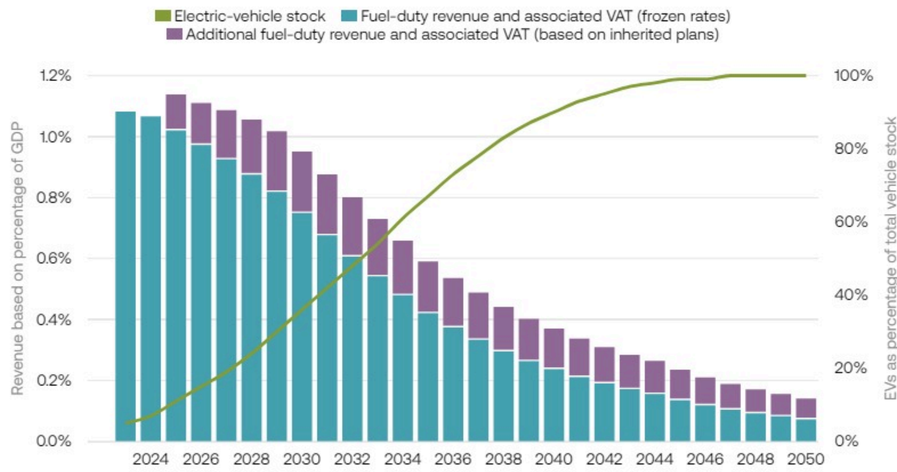


Source: TBI analysis based upon the planned evolution of fuel duties set out by the Office for Budget Responsibility[20] and its long-term RPI inflation forecast.[21] For annual charges we base our calculations on an average fuel efficiency of 36 miles per gallon and total mileage of 7,000 miles per year.[22]

However, in the longer term these rate rises will be insufficient to address the decline in fuel-duty revenue caused by the adoption of electric vehicles – under the planned duty regime, fuel duty and associated VAT receipts are expected to decline by nearly 40 per cent in real terms between 2025 and 2035. The fall will be from approximately 1.1 per cent of GDP down to less than 0.6 per cent; revenue is expected to collapse further to just over 0.1 per cent of GDP by 2050, as electric-vehicle adoption reaches nearly 100 per cent.[23]

FIGURE 9

The evolution of fuel duty and associated VAT revenue up to 2050 alongside the assumed progress of electric-vehicle uptake



Source: Long-term projections of electric-vehicle uptake and motoring-tax receipts are based on chart 4.9[24] and 4.5[25] from the Office for Budget Responsibility

The Urgent Need for Reform and the Political Challenges to Overcome

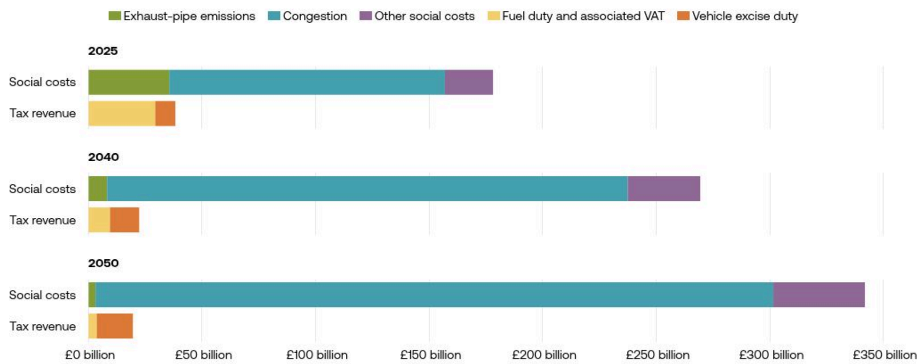
Raising fuel duty is technically easy to enact but it is politically fraught, which is why it has not happened since 2011. As a result, fuel-duty revenue (inclusive of VAT) has fallen from 1.9 per cent of GDP in 2011 to just 1.1 per cent this year. Fuel-duty rises are unpopular among the nearly 80 per cent of households who own a car; they also increase the single most visible price in the economy, which can have a negative impact on consumer confidence.[26] Critics also argue that fuel duty is a tax on mobility that harms economic growth.

But there are a range of strong economic reasons that justify higher motoring taxes. They internalise a number of social costs (or externalities) that are associated with driving: greenhouse-gas emissions and other air pollution; health and other costs associated with accidents; road maintenance and infrastructure costs; and, most significantly of all, congestion.

The current motoring-tax system does a poor job of covering all these social costs, as highlighted in our 2021 report *Avoiding Gridlock Britain*.[27] Based on projections for next year, motoring taxes are expected to cover only about a quarter of these social costs, which is sufficient to cover the cost of exhaust-pipe emissions but little else.[28] Moreover, without tax reform this share is expected to decline as a result of falling fuel-duty revenue; it will also be adversely affected by a lack of taxation on electric vehicles, which will prompt greater road use and higher congestion. By 2050, the annual cost of congestion to society could more than double from £120 billion in 2025 to £300 billion, based on the Department for Transport's scenario analysis.[29]

FIGURE 10

Forecast of the social costs of motoring vs motoring-tax revenue



Tax revenue and social costs are expressed in constant 2025 prices. Social-cost figures for 2025 are based on projections from the Department for Transport's core scenario, while projections further out are based on its vehicle-led decarbonisation scenario, which has a rate of electric-vehicle uptake broadly consistent with the Office for Budget Responsibility's projections. Our tax-revenue projections are based on maintaining the nominal freeze in fuel-duty rates into and beyond 2025

Source: Social costs are based on the Department for Transport's 2022 common analytical scenarios (CAS)[30] and transport analysis guidance (TAG) data books[31] uprated to 2025 prices based on consumer-price-index inflation. The motoring-tax revenue is based on the Office for Budget Responsibility's September 2024 report on fiscal risks and sustainability[32] and chart 4.5 in its March 2024 economic and fiscal outlook report.[33]

Government policy should incentivise the shift towards electric vehicles by taxing petrol- and diesel-car drivers more heavily. However, these tax penalties should mainly seek to address the social costs of exhaust-pipe emissions that are unique to petrol and diesel vehicles – not the broader social costs of motoring that apply equally to electric vehicles. Based on Department for Transport projections, fixing fuel duty at its current level in cash terms should be sufficient to broadly offset the future social costs of emissions from vehicles with internal combustion engines.[34] However, this leaves other social costs – particularly congestion – unaccounted for.

If the government does not act quickly to develop a clear plan on how to address these other social costs of driving, more and more road users will buy electric vehicles on the implicit promise that they will not be taxed. Trying to introduce a new tax system later will only become more difficult.

The Solution: Introduce Road Pricing

With a major rise in fuel duty already in prospect next year – including one that can be linked to the fiscal inheritance from the previous government – the chancellor has an opportunity to pivot that tax rise into a more meaningful reform.

Echoing the same sentiment that we voiced in 2021 in our paper *Avoiding Gridlock Britain*, we propose that the government should introduce a system of road pricing as the only policy measure that fairly and effectively works to account for the social costs of motoring in an increasingly electrical era.[35]

Given the urgent need for reform and the opportunity that will be presented in the spring, we suggest that the chancellor initially adopt a simple system of flat per-mile charges that is both easy to implement and easy for motorists to understand. This system could then gradually become more targeted over time as per-mile charges rise and the use of telematic technology becomes more ubiquitous.

STEP 1: INTRODUCE SIMPLE PER-MILE CHARGING NOW

Under our proposals, the planned rises in fuel duty in March and April next year would not go ahead, and instead the government would introduce a simple system of pay-per-mile charges from April 2025. The vast majority of vehicles, namely cars and vans (light-goods vehicles), would pay 1p per mile; heavy-goods vehicles that create more congestion and impose greater maintenance costs on the road network would be charged at a rate of 2.5p to 4p per mile, depending on their size.[36] Certain types of vehicle that either reduce congestion or have a minimal impact on it – such as buses, emergency vehicles, breakdown-recovery vehicles and motorcycles – would be exempt, as is the case under the London Congestion Charge.

This reform would be revenue neutral compared with the inherited plan to raise fuel duty, as both would raise an additional £3.3 billion over the next financial year. For the average car driver, who drives 7,000 miles per year, this new form of road pricing would also be tax neutral. It would impose an annual road-pricing charge of £70, almost identical to how much the same

driver would pay in extra fuel duty under current plans.[37]

There would, of course, be some losers under this scheme relative to current plans to just raise fuel duty. Electric-vehicle drivers would face a charge of £70 (assuming they also drive 7,000 miles per year), which is a tax they would not have paid under a system only based on fuel duty. But, crucially, there would still be a large difference in motoring taxation between electric vehicles and conventionally powered cars.

An average petrol-car driver would pay about £630 in per-mile tax charges per year (from a combination of fuel duty, VAT and road pricing) versus only £70 for electric-vehicle drivers (the difference reflects the social cost of exhaust-pipe emissions). Freezing the rate of fuel duty thus equates it more closely to a pure emissions tax. Department for Transport figures estimate the social cost of exhaust-pipe emissions in 2025 could be £29 billion to £35 billion; this is similar in magnitude to the OBR's revenue forecast for frozen fuel duty and associated VAT of £29.4 billion for 2025, with these figures converging over time.[38],[39]

Administering this per-mile charge will require consideration of accuracy, privacy and efficiency. We propose that the main way to charge road users should be via a direct payment at the point of a car's annual MOT, which already records mileage. This method would require no additional information and should be simple and cheap to administer, as it is based on the existing MOT system. Under our proposals, drivers would be required to make their first road-pricing payment at the point of their first MOT after March 2025.[40] In the first instance, this payment would be charged as a proportion of their annual mileage over the previous year, with the proportion depending on when in the year the MOT takes place.[41] Payment would be processed online by the DVLA or over the phone, as with vehicle excise duty (VED).

For new cars that are not subject to MOT for their first three years, vehicle owners would be required to self-report their mileage by submitting a picture of their odometer when they pay their VED (these reports would then be cross-checked and the ultimate value reported at a vehicle's first MOT). Drivers would be incentivised to accurately report their per-mile

charges because road-pricing charges will rise over time; as such, misreporting lower mileage initially would incur a higher charge later. Reporting odometer readings would also become mandatory when a used vehicle is sold, at which point the seller would be issued with an in-year road-charge bill for their accumulated mileage up to that point (similar to how VED is administered).

One concern with this simple approach is that UK drivers may be overcharged for miles driven outside the country, while foreign drivers could be undercharged for driving in the UK. This is a particular issue for international freight traffic that covers a large number of miles on the continent. To account for this, we propose that the government works with the automotive, freight and tech industries to create a simple system that records mileage driven outside the UK. This could be based on existing built-in GPS systems, which a large proportion of cars and goods vehicles already have, or it could involve the creation of a bespoke, affordable telematic device that would allow mileage data to be shared directly with the DVLA for tax purposes.[42]

This latter device could be designed to record kinetic movement and hence be used to calculate mileage but not record location, in order to safeguard privacy (one exception would be to determine whether a vehicle is driving within the UK's national borders or not). Base costs of these devices are low – about £20 based on existing providers – and they would become mandatory for foreign freight drivers over time.[43],[44] If the adoption of these systems is high enough they could form the technological foundation for the government to adopt a more targeted form of congestion charging in the future.

A final concern is that vehicle odometers are not immune to tampering. Odometer fraud or "clocking" is illegal if mileage discrepancies are not disclosed to the buyer upon selling. The current victims of this fraud are buyers of secondhand cars; however, a failure to crack down may mean it becomes a wider social problem reflecting a new means of tax evasion, resulting in wider societal costs. Tougher penalties may need to be introduced for those offering mileage "correction" services[45] and investment might be needed to ensure compliance. This could be through preventing

professional odometer tampering and cross-checking reported mileages against other sources, such as information from congestion-charge zones.

Despite these complexities, we believe that in most cases our proposed per-mile charge would be easy to administer and, hence, ready to implement by April 2025. Compared to other taxes, such as VAT, there are actually very few complexities, which leaves little room for evasion (short of the odometer tampering mentioned above). Compliance with the per-mile charging system would be treated in the same way as VED, with failure to pay considered a criminal offence.

STEP 2: SET A CLEAR TRAJECTORY FOR PER-MILE CHARGING IN THE FUTURE

Over time the per-mile tax on driving will need to rise to stop congestion from getting worse, offset some of the fall in tax revenue from declining fuel duty and account for inflation. The government thus needs to not only be able to introduce this initial per-mile charge but also set out a planned schedule of increases, ideally for this parliament and the next. This would allow drivers to make informed decisions around their vehicle choices.

Currently, an average petrol-car owner pays about 8p per mile in fuel duty and associated VAT. Under existing plans, this is set to rise to about 9p per mile next year, 10p per mile by 2030 and 15p per mile by 2050, based on the assumption that fuel duty will rise with RPI inflation every year. But even this upward trajectory results in an accelerating decline in annual revenue as electric-vehicle uptake increases, with revenue projected to fall from £33 billion in 2025 to £23 billion by 2034 – and to £7 billion by 2050.[46]

The government has a choice to make regarding how much to tax road use in the future. One option could be to keep the share of vehicle taxation broadly stable as a share of GDP – however, this would involve large annual increases in motoring taxation, to account for inflation and growth in the real economy. A more conventional approach would be to ensure that motoring taxation keeps pace with inflation only and continues to generate the same amount in real terms.

Our calculations suggest that if road pricing were introduced at 1p per mile in 2025, it would need to rise to around 10p to 12p per mile by 2050 (in cash terms), to keep revenue from motoring taxation broadly stable once adjusted for inflation.[47] If implemented linearly, this would imply an annual rise in the per-mile charge of 0.35p to 0.45p every year. In reality the government might want to adjust this path to take account of the actual speed of uptake of electric vehicles. But in any case, there is merit in the government signalling that road-pricing rates will need to rise over time to offset congestion and support growth, and to enable car owners to make informed decisions about their purchases.

Adopting this approach of a gradually rising road-pricing charge would have a significant impact on the public finances – cumulatively raising an additional £5.7 billion over the course of this parliament and an additional £28 billion over the next.[48] In the context of tight public finances, these sums are invaluable.

FIGURE 11

Motoring-usage revenue compared in a system that incorporates road pricing versus one purely based on fuel duty

Source: TBI, using chart 4.9 in the Office for Budget Responsibility's September 2024 report on fiscal risks and sustainability[49] and the mode-balanced decarbonisation scenario in the Department for Transport's National Road Traffic Projections 2022 report[50]

While we have modelled a flat per-mile charge, the government should plan to deploy technology to make the scheme more targeted and efficient over time – and this will only become more important as per-mile charges increase. For example, simple telematic devices – developed to account for miles driven overseas – could also be used to provide road-price discounts for those who drive in off-peak hours. Other methods of zonal pricing that reward those who avoid driving in congested cities could also be used.

Failing to act on road taxation now risks overly subsidising road usage for those able to afford electric vehicles, increasing congestion and the loss of a valuable revenue stream for government. Introducing per-mile road usage taxation represents a sensible and feasible reform that responds to the new reality of electric-vehicle uptake and sets the government on the right path

for sustainable road usage. 2025 offers an unparalleled opportunity to make this shift. Instead of sticking with unpopular fuel-duty hikes, the government can embrace a fairer, long-term solution that will secure the fiscal sustainability of motoring-tax revenue, not just for this parliament but also for future generations.

05

Conclusion

Over the next two fiscal events, the chancellor has a unique opportunity to reset the direction of fiscal policy in the UK. This is a moment to move beyond incremental adjustments and take bold, transformative action that boosts public-sector investment and redefines the role of government in the 21st century. By embracing the technological revolution, the government can harness its potential to boost growth, improve public-service delivery, enhance fiscal sustainability, and reshape the tax and benefit system to meet modern needs. This will require upfront investment in new AI-era tools, and the government's fiscal rules should be reformed to enable such investment.

This is also a pivotal moment to address long-standing issues such as reforming property taxation and introducing road pricing – two critical measures that have long eluded previous administrations. Such reforms would not only help support growth but also create a more equitable, efficient and future-proof tax system.

These are undoubtedly challenging times to govern. But the solutions are at hand. If the chancellor is willing to act decisively, she can set the UK on a better path to prosperity. The time for transformative action is now.

Endnotes

1 Note that this excludes the cost of zero-rating new-build construction – since the consumption of property services is taxed on an annual basis through council tax and business rates, this should be retained.

2 Note that this threshold is set to fall to £125,000 in April 2025 under plans inherited from the previous government.

3 James A Mirrlees and others, ***Tax by Design*** (OUP, 2011); https://ifs.org.uk/books/tax-design [accessed 3 October 2024].

4 See, for instance, "Reeves has the best chance since Lloyd George of reforming property tax" (ft.com). Strictly speaking, given the restrictive planning system in the UK, property taxes may discourage landowners from seeking planning permission to build on land they own. But given the uplift in land values obtained by receiving planning permission (see Tone Langengen, John Myers and Kyle Emerson, ***The Urgent Need to Build More Homes*** (Tony Blair Institute for Global Change, 2024) https://institute.global/insights/economic-prosperity/the-urgent-need-to-build-more-homes [accessed 3 October 2024], such effects are likely to be small.

5 Source: Tim Leunig, ***A Practical Alternative to Replace Stamp Duty and Council Tax*** (Onward, 2024); https://www.ukonward.com/wp-content/uploads/2024/08/Onward-A-Fairer-Property-Tax.pdf

6 Keith Parry, "Council Tax (New Valuation Lists for England) Bill (Bill 57 of 2005-06)", House of Commons Library Research Paper, 05/73 (2005); https://commonslibrary.parliament.uk/research-briefings/rp05-73/ [accessed 3 October 2024].

7 https://yougov.co.uk/politics/articles/50354-what-tax-rises-would-britons-support

8 Stuart Adam and James Browne, ***Reforming Council Tax Benefit***, ***Institute for Fiscal Studies Commentary*** (s, 2012), doi:10.1920/co.ifs.2012.0123.

9 This proposed reform would likely have only a limited impact on property prices and hence pose a limited risk to financial stability. By reducing the upfront cost of moving home, this reform might lead to some intertemporal substitution – bringing forward some house purchases that would have happened later. The long-run impact is likely to be muted as ultimately the stamp-duty tax bill facing most home-movers will be the same under this system as the current one (particularly if they do not move within 20 years).

10 There would of course be a risk that households would default on the stamp-duty loan. This could be minimised if the loan were secured as a second charge against the property – so any mortgage secured against the property would still be repaid first if the property were repossessed. This would prevent any disruption to the availability of mortgage finance for home purchases. This concern about defaults and the administrative cost of running the scheme may also justify a slight premium on the average interest rate charged – just above the long-run rate of government borrowing.

11 Christian A. L. Hilber and Teemu Lyytikäinen, ***The Effect of the UK Stamp Duty Land Tax on Household Mobility*** (Centre for Economic Performance, LSE, 23 July 2012);

https://cep.lse.ac.uk/_new/publications/abstract.asp?index=4087 [accessed 9 October 2024].

12 These features are shared with Onward's recent proposal (Leunig, 2024 op. cit.) and the maximum levy with the system of domestic rates in Northern Ireland, where high-value properties are not subject to additional taxation on the portion above £400,000. The minimum threshold in our proposals is calculated to correspond to the average property price in Great Britain in 2023 and would represent a £50 discount on average for those in Band A properties.

13 Existing exemptions, discounts and council-tax support schemes would be maintained under these reforms. Properties occupied by only one adult would continue to receive a 25 per cent discount and exemptions for students would remain. Local authorities would continue to have flexibility on whether or not to charge higher taxes on second homes and whether to impose higher or lower taxes on empty homes. Local authorities would continue to be obliged to give pensioners with the lowest incomes a full rebate.

14 In the analysis that follows, we take data for a representative sample of English households from the 2022–23 Family Resources Survey and allocate each household to a local authority based on their observed region and council-tax band (local authority is not observed in the data). This enables us to calculate their council-tax liability under the current system. We then use the observed council-tax band and local-authority-level house-price growth since 1991 from the ONS to estimate the property's current value, which enables us to calculate council-tax liability under our reformed council tax.

15 Figures expressed are in 2025 prices.

16 The £30 billion figure includes revenue raised directly from fuel duty itself (£24.7 billion in FY2024-25 according to the OBR's March 2024 forecast) as well as VAT charged on that duty (equivalent to another £5 billion).

17 https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/fuel-duties/

18 https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/fuel-duties/

19 Assuming an average fuel efficiency of 36mpg and average mileage of 7,000 a year, based on the latest figure from table NTS0901: https://www.gov.uk/government/statistical-data-sets/nts09-vehicle-mileage-and-occupancy

20 https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/fuel-duties/#:~:text=Based%20on%20announced%20policy%2C%20petrol%20and%20diesel%20duty,on%20simple%20assum

21 https://obr.uk/supplementary-forecast-information-release-long-term-economic-determinants-march-2024/

22 https://www.gov.uk/government/statistical-data-sets/nts09-vehicle-mileage-and-occupancy

23 Based on OBR forecast given in Chart 4.9: https://obr.uk/frs/fiscal-risks-and-sustainability-september-2024/

24 https://obr.uk/frs/fiscal-risks-and-sustainability-september-2024/

25 https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/

26 78 per cent of households have access to at least one car or van, table NTS0205: https://www.gov.uk/government/statistical-data-sets/nts02-driving-licence-holders

27 Since the publication of this paper, the decision has been made to equalise the vehicle-excise-duty (VED) treatment of ICE and electric vehicles. This has improved the expected motoring tax take, but declining fuel-duty revenue still risks widening the gap between tax revenue and actual social costs.

28 Exhaust-pipe emissions cover the social-cost categories of Greenhouse Gases and Local Air Quality detailed in the Department for Transport's Common Analytical Scenario data book: https://www.gov.uk/government/publications/common-analytical-scenarios-databook

29 Social costs are expressed in constant 2025 prices. Social-cost figures for 2025 are based on projections from the Department for Transport's 'core' scenario, while projections further out are based on DfT's vehicle-led decarbonisation scenario, which has a rate of electric-vehicle uptake that is broadly consistent with the OBR's projections.

30 https://www.gov.uk/government/publications/common-analytical-scenarios-databook

31 https://www.gov.uk/government/publications/tag-data-book#:~:text=The%20TAG%20data%20book%20provides,was%20released%20in%20November%202023

32 https://obr.uk/frs/fiscal-risks-and-sustainability-september-2024/

33 https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/

34 In 2025, social costs from exhaust-pipe emissions are estimated to be somewhat higher than the amount collected as a result of fuel duty and associated VAT. This might suggest that fuel duty needs to rise further to account for the social cost of exhaust-pipe emissions. However, based on the Department for Transport's scenario analysis, this is essentially a dynamic problem, as over time these amounts converge and become approximately equal. For 2025, we also consider that a portion of the revenue collected by VED – specifically the higher rates of initial tax for more heavily emitting vehicles, as well as higher legacy payments for older internal-combustion-engine vehicles first registered before 2017 – approximates an emissions tax. Once this revenue is included, current rates of duties specific to internal combustion engines are broadly consistent with the social costs of exhaust-pipe emissions.

35 TBI is not alone in recognising the growing need for action on this issue; indeed, many of the same sentiments expressed within this section were recently echoed by the chair of the National Infrastructure Commission: https://www.theguardian.com/politics/2024/oct/10/uk-road-pricing-infrastructure-electric-vehicles-35bn-tax-shortfall

36 The lower bound of 2.5p per mile accords with the non-emission-related social costs of rigid-body heavy-goods vehicles relative to cars, while the upper bound of 4p per mile relates to larger, articulated heavy-goods vehicles. These differences are reflected in the social costs recorded in the Department for Transport's TAG data book: https://www.gov.uk/government/publications/tag-data-book

37 Based upon TBI calculations assuming fuel efficiency of 36mpg.

38 The range for the social costs from exhaust-pipe emissions (which include greenhouse-gas emissions and local air-pollution costs) are taken from the core scenario in the Department for Transport's TAG data book: https://www.gov.uk/government/publications/tag-data-book. They are also taken from the vehicle-led decarbonisation scenarios of the Department for Transport's Common Analytical Scenarios data book (uprated to 2025 prices): https://www.gov.uk/government/publications/common-analytical-scenarios-databook

39 Frozen fuel-duty revenue estimate derived using chart 4.5, Fuel Duty Forecasts vs Outturns, OBR Economic and Fiscal Outlook March 2024.

40 Odometer readings are already recorded at MOT tests. As such, first liability can be calculated as the difference between the last pre-reform reading and the first post-reform reading.

41 For example, if a driver covers 7,000 miles a year and their first MOT after March 2025 took place in early October (six months after the road-pricing scheme was introduced), they would only be liable to pay 50 per cent of their annual road-pricing charge. This is based on the assumption that only half their mileage occurred after the new scheme was introduced, so £35 rather than £70. For drivers concerned that they drove the majority of their mileage in the previous tax year before road pricing was introduced, the government could create an option to submit an odometer reading online in April 2025 (with a photo), to serve as an alternative base for the year.

42 About 8 per cent of drivers may have telematics systems in their vehicles for insurance purposes: https://www.insurancebusinessmag.com/uk/news/auto-motor/telematics-insurance-on-the-rise-for-uk-drivers--the-green-insurer-476269.aspx

43 https://www.autoexpress.co.uk/product-group-tests/108290/best-car-gps-trackers-2024

44 Foreign-registered drivers are currently required to pay the London Congestion Charge regardless of how long they have been in the UK. However, applying the same criteria to a national road-pricing scheme without sophisticated monitoring devices would be challenging. Instead, under our reforms, foreign non-commercial vehicles would be exempt from the road-pricing scheme for their first six months in the country, at which point they would have to be registered with the DVLA and become liable for per-mile charging. Excluding foreign vehicles from these charges does not present a significant fiscal risk, given that they account for a very small proportion of total mileage. Over time this system could be refined or improved and coordination with foreign authorities might be possible, in order to introduce proportionate charges for foreign drivers.

45 https://www.gov.uk/cma-cases/mileage-correction-businesses-compliance-review

46 All figures refer to the value of fuel duty and associated VAT receipts from the OBR's March 2024 Economic and Fiscal Outlook, and the OBR's September 2024 Fiscal Sustainability Report. All figures are expressed in constant 2025 prices.

47 The range of outcomes here depends in part on how many miles will be driven in the future, which will depend to some extent on the effectiveness of road pricing in deterring excessive driving. We use mileage forecasts from the Department for Transport's Vehicle Led Decarbonisation Scenario and Mode Balanced Scenarios to provide an upper and lower bound for our estimates.

48 Again, all figures are expressed in constant 2025 prices – in nominal terms the sums raised will be larger

49 https://obr.uk/frs/fiscal-risks-and-sustainability-september-2024/

50 https://www.gov.uk/government/publications/national-road-traffic-projections

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