

All the options on tax ... and the pain they could inflict

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What are the chancellor’s options for tax rises in the budget and how politically damaging will they be?

RAISING INCOME TAX

Labour’s manifesto included an explicit pledge not to increase income tax, national insurance or VAT. Both Rachel Reeves and Sir Keir Starmer have signalled that they are prepared to break that pledge. The chancellor said she wanted to put Britain’s national interest before “political expediency”.

Income tax is seen as the most likely option because it applies to most forms of personal income, including pensions. Ministers have argued that it is a fairer tax than national insurance, which solely affects workers.

Raising income tax by a penny for all taxpayers would raise about £8.3 billion. Increasing only the 40p higher rate of income tax, which is paid by those earning more than £50,000, is preferred by many Labour MPs but would raise only £2 billion.

It would represent an explicit breach of Labour’s manifesto pledge not to raise income tax rates. It would also be a breach of Reeves’s longstanding promise to protect “working people” from tax rises.

Political pain rating 5/5

Few politicians have come back from breaking an election pledge on tax; it will hand Reform and the Tories a huge stick to beat Labour with right up to the next election. It is a huge gamble.

STEALTH TAXES

This one appears to be a banker. The Tories froze income tax thresholds until 2028-29, a move regarded as a stealth tax. As wages rise people get dragged into higher income tax bands, a process known as fiscal drag.

It is a big revenue-raiser for the Treasury and Reeves is expected to extend the freeze by another year until 2029-30, raising £10 billion. The number of Britons paying the top rate of income tax is expected to rise by half a million to seven million in this tax year.

Political pain rating 3/5

Although it hits all workers, Labour argues that it is not an explicit breach of the manifesto because it does not affect the main rates of income tax and the Tories repeatedly used the same approach.

TWO UP TWO DOWN

One idea that Reeves is looking at that might avoid the need for a simple rise in income tax is a more complex change to Britain’s tax burden that would protect most people currently in work.

Under this plan the chancellor would increase income tax by 2p while at the same time reducing national insurance, which is paid by salaried employees, shift workers and the self-employed, by the same amount.

Effective tax rates on income from employment would be unchanged, while income from investments, rental properties and pensions would be taxed more, raising £6 billion.

Political pain rating 4/5

Reeves could conceivably argue that this policy does not break Labour’s pledge not to raise taxes on working people. Nevertheless this is likely to be drowned out by the howls of protest from groups such as pensioners who will be hit harder than from a standard 1p rise income tax.

MANSION TAXES

The Treasury has drawn up an array of options for targeting expensive properties. The most likely is increasing council tax on the most expensive properties, either in the form of new bands or by increasing existing rates.

Political pain rating: 1/5

Reeves would be on home turf with a mansion tax given that it is advocated by many Labour MPs.

TAXING THE BANKS

Labour could target “excess” profits by raising the current surcharge of 3 per cent applied on lenders. An increase to 8 per cent could raise in the region of £1 billion to £2 billion a year.

Political pain rating: 2/5

Again, bankers are not popular but Reeves will be reluctant to do anything that could make the City of London a less attractive place to do business.

Source: The Times, Tuesday 4th November 2025

Spring statement 2025

Fuel duty freeze until 2025-2026

The temporary **5p** cut in fuel duty rates extended by 12 months in the Autumn Budget 2024 will remain and will expire on 22nd March 2026. The planned inflation increase for 2025-26 will also not take place. The freeze is a tax cut worth £3 billion over 2025-26 which represents a £59 saving for the average car driver.

The Times reports the Chancellor is considering scrapping the **5p** cut in fuel duty in the Autumn Budget.

Treasury may scrap 5p fuel duty cut

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Rachel Reeves is considering scrapping the 5p cut in fuel duty in the budget in light of concerns that retailers are failing to pass on the benefit to motorists.

The Treasury has drawn up plans to end the relief, which was first introduced in 2022 to help with the cost of living after oil prices soared following Russia's full invasion of Ukraine.

It was billed as a temporary measure but has been renewed by successive chancellors to prevent a backlash from motorists. Fuel duty has also been frozen since 2011, and the combined reliefs cost the exchequer £3 billion a year.

Ministers are giving serious consideration to ending the relief because fuel prices are broadly where they were in September 2021, averaging 135.4p per litre for unleaded and 143.1p for diesel. There are also concerns that motorists are not feeling the benefit of the 5p cut because major retailers are failing to pass it on.

However, there are worries inside No 10 that it will lead to a political backlash and increase the pressure on people over the cost of living. A final decision will be made in the coming days.

Details of the plans were obtained by *The State of It*, the political podcast from The Times and The Sunday Times.

One motoring expert said that if

Reeves did not end the 5p cut, it would become a permanent feature of the tax system. They said: "There is a broad consensus that the 5p cut is not being properly passed onto drivers but absorbed by garages. Yet with every budget closer to the next election, the move becomes harder to make."

Any move would lead to accusations from opposition parties that Labour is going to war with motorists. Gordon Balmer, executive director of the Petrol Retailers Association, said: "With inflation putting pressure on business, the last thing we need is a rise in fuel duty. We urge the chancellor to commit to a full freeze on fuel duty and make the 5p-per-litre rebate permanent."

Source: The Times, Tuesday 4th November 2025