

## 14 October 2025 - Budget 2025 - Oral evidence

New 2025 Budget series begins with session on Chancellor's tax options

See the full transcript [here](#)

Witnesses:

- Dan Neidle, Founder, Tax Policy Associates
- Helen Miller, Director, Institute for Fiscal Studies
- Professor Arun Advani, Professor of Economics, University of Warwick and Director, CenTax (Centre for the Analysis of Taxation)
- Ruth Curtice, CEO, Resolution Foundation

The Treasury Committee convened on 14 October 2025 to examine the economic challenges facing the Chancellor of the Exchequer, Rachel Reeves, ahead of the forthcoming Budget on 26 November. The session featured expert witnesses: Dan Neidle (Tax Policy Associates), Helen Miller (Institute for Fiscal Studies), Professor Arun Advani (University of Warwick), and Ruth Curtice (Resolution Foundation). The discussion focused on the fiscal gap, potential tax reforms, spending constraints, productivity growth, and the long-term sustainability of public finances.

### Fiscal Context and Political Choices

Helen Miller began by stressing that the Chancellor faces complex political and economic trade-offs in addressing a fiscal gap estimated between £20 and £40 billion. She emphasised the importance of balancing adherence to fiscal rules with decisions on the scale of fiscal consolidation, the division between spending cuts and tax increases, and the selection of which taxes to adjust. Miller argued that although it is possible to raise £20–30 billion without altering income tax, national insurance, or VAT rates, the key question is not feasibility but desirability. She called for a focus on the economic efficiency of taxation, warning that poorly designed rises can damage welfare and growth. She urged the Government to use this moment for meaningful tax reform rather than piecemeal revenue-raising.

### Approach to Tax Reform

Dan Neidle echoed this, warning against the “Scrabble bag” approach of numerous minor tax rises, which adds complexity and inefficiency. He advocated for strategic reforms that simplify the tax system and promote growth, citing decades of ad hoc adjustments that have ossified fiscal policy. Ruth Curtice argued that the UK's borrowing costs and weak growth justify tax increases in this Budget, provided that measures minimise harm to growth and inflation while improving fairness. Her recommendations included aligning national insurance and income tax rates, reforming capital gains tax, and introducing levies such as a salt and sugar tax. Professor Arun Advani supported raising revenue through system-wide reforms that broaden tax bases—particularly for VAT and national insurance—without necessarily increasing rates.

### **Pro-Growth Tax Strategies**

Neidle highlighted three key growth barriers: the complexity of corporation tax, distortions caused by the VAT registration threshold, and irrational marginal tax rates around £100,000 income levels. He proposed simplifying corporation tax via a politically backed simplification unit; lowering the VAT threshold to reduce barriers for small firms, paired with a minor VAT rate cut; and addressing punitive effective tax rates that discourage work. Professor Advani added that structural distortions—such as tax preferences for property investment over productive investment and disparities between employees and partners—undermine efficiency. Aligning treatment across these areas would incentivise growth-oriented decisions.

### **Modelling and Scoring of Reforms**

When questioned on the evidential basis for reforms, the witnesses noted that while the OBR (Office for Budget Responsibility) models behavioural effects of tax changes, comprehensive data on measures like VAT thresholds or income tax cliff edges is limited. Advani noted ongoing research into labour supply effects of tax discontinuities, and both Miller and Curtice agreed that although supply-side effects are difficult to score formally, empirical evidence supports simplification as a route to long-term productivity.

### **Productivity, Spending and Credibility**

Turning to spending and productivity, Miller warned against assuming cuts alone could deliver growth. Instead, she urged structural reform of major spending areas such as disability benefits and special educational needs, focusing on outcomes that improve workforce participation. She stressed the importance of maintaining fiscal credibility with lenders given high borrowing costs. Curtice reinforced that productivity growth has been stagnant since the pandemic, and with spending growth already constrained to 1.2% in real terms, choices between health spending and higher taxes are unavoidable.

### **Innovation, R&D and Investment**

Chris Coghlan raised the question of whether R&D investment could boost productivity and reduce the fiscal gap. Miller replied that while R&D supports innovation, constraints on borrowing and competing priorities (e.g. defence and net zero) limit further expansion. Neidle criticised the current R&D tax relief system as vague and prone to fraud, suggesting narrowing eligibility to large, auditable projects to improve efficiency and certainty. Discussion also covered “full expensing” of investment costs, with Neidle arguing that genuine full expensing could significantly boost GDP, though it would require curtailing interest deductibility to maintain fiscal balance.

### **Evaluation of Tax Reliefs**

The panel condemned the proliferation of over 100 tax reliefs costing roughly the NHS's annual budget, many of which are poorly evaluated. Advani revealed that HMRC spends only £600,000 annually assessing £200 billion worth of reliefs, a clear imbalance. Both he and Miller called for a formal review process akin to public spending reviews, ensuring that reliefs are justified and evidence-based. Miller cautioned that not all reliefs are distortive—some, such as pension tax treatment, are structural features of the system—but many, including R&D and business incentives, lack coherent policy intent. The witnesses called for consolidation and simplification, with Helen Miller comparing the process to the introduction of Universal Credit as a rationalisation of overlapping welfare schemes.

### **Wealth Taxes and Long-Term Fiscal Sustainability**

Later discussion turned to wealth taxation. Professor Advani explained that a wealth tax targets total net assets but argued that the UK should first fix existing taxes on wealth—capital gains, inheritance, and property—before creating new ones. He advocated aligning capital gains tax with income tax rates while excluding a normal return on investment, to eliminate incentives for tax-motivated income reclassification. Reforming the inheritance regime to ensure unrealised gains are not erased upon death would also promote efficiency.

### **Public Finances and the Size of the State**

The final part of the hearing addressed the macroeconomic context. Advani and Curtice noted that the UK's tax-to-GDP ratio is broadly in line with European averages and that a large state necessitates higher taxation. Curtice warned that long-term fiscal projections—driven by ageing, defence and climate costs—make the case for structural reform unavoidable. Miller concluded that while debt reduction is desirable for resilience to future shocks, the ultimate solution lies in restoring productivity growth, not perpetual fiscal tightening.