



2017 election: income tax revisited

The 2017 election manifestos offered little good news on the future of income tax.

Judging by the manifestos of the three main political parties, the days of appealing to voters by cutting income tax (and its alter ego, national insurance) are over:

- The Conservatives repeated their 2015 manifesto promise of a personal allowance of £12,500 and a higher rate threshold of £50,000 (outside Scotland) by 2020. The way inflation is picking up, that pledge means little more than keeping pace with prices, which is already built into the legislation. Although there were references to “low taxes”, the previous manifesto’s promises to freeze rates for income tax and national insurance had disappeared. Given the problems Mr Hammond encountered with his March Budget, the silence is unsurprising.
- The Labour Party manifesto promised no *personal* national insurance increases and no income tax increases for those with income of up to £80,000. Beyond that point, Labour wanted to apply a 45% rate (which currently starts at £150,000). There would also be the return of a 50% top rate, beginning at £123,000. The odd-looking starting point is driven by the fact that this is the income level at which all the personal allowance is lost.
- The Liberal Democrats adopted a simple approach in their manifesto: an immediate 1% increase in basic, higher and additional rates of tax. However, the party suggested that in the longer term this would be replaced by “a dedicated health and care tax...possibly based on a reform of national insurance contributions”.

Income tax and national insurance will account for about 44% of all tax revenue in 2017/18, according to the Office for Budget Responsibility’s March 2017 estimates. This makes reductions expensive and increases valuable – the Liberal Democrats’ 1% would yield £6 billion a year. With even the Conservatives talking about not eliminating the Budget deficit until 2025, the hard truth is that, regardless of political hue, no government can afford income tax giveaways.

All of which means that if you want to see your income tax bill reduce, you need to elect for more financial planning rather than any particular political party.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.