The UK Autumn Budget: Will tax increases raise more revenue?

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The Chancellor faces a big problem going into the Autumn Budget, she must raise money in a sluggish, high-debt economy without choking off the very growth that would make the numbers add up.

This dilemma has a familiar narrative, the Chancellor claimed she 'inherited' a £20 billion black hole from the previous Government, which required her to raise taxes in last year's Autumn Budget. Setting aside the accuracy of the claim, which might be politely described as a political claim rather than an audited line item, last year's Budget was intended to raise £40 billion in revenues, along with additional borrowing, to plug the gap and fund the new Government's spending pledges.

This must have seemed quite straightforward in the Treasury before the Budget was announced. Furthermore, most of the revenue was being raised through an increase in Employers National Insurance Contributions and therefore the Government could claim to have stuck to its manifesto pledge.

However, less than one year later with another Budget around the corner, reports now suggest a £50 billion black hole must be filled … with more tax rises. It is probably worth noting that these headline numbers should be treated with caution, they are simplifications of complex calculations, but they are directionally correct and point to a very challenging financial position.

This situation raises several concerns, the most significant of which is the lack of awareness of the paradox in tax policy. Raising tax rates does not always deliver increased tax revenue because raising taxes changes people's behaviour. This is evident everywhere, one of the main reasons for taxing cigarettes is to reduce smoking and the plastic bag tax was introduced to discourage people from using plastic bags.

More recently, when taxes were increased on 'non-doms', many sold up and took their wealth abroad resulting in a reduction in revenue raised not an increase. It is the same story in the North Sea, the last Government started raising taxes on North Sea oil and gas, which were increased further by the current Government, and the result is now a decrease in oil and gas production and an associated drop off in revenue raised.

It can also apply to tax reductions, the UK reduced its top rate of income tax from 50% to 45% in 2013, and both HMRC and the OBR concluded that the revenue raised was largely unchanged, because people were incentivised to work and earn more. This seems to be a lesson successive Irish Governments have learned well, Ireland has one of the lowest corporate tax rates in the developed world, yet corporate tax revenues are amongst the highest.

It is important to recognise that not all tax cuts pay for themselves, but seeking a disproportionate increase on a relatively small economic group brings with it significant economic risks.

Of course, the wealthiest should shoulder most of the burden, but taxing them too heavily can have a counter-intuitive impact. It is not well publicised, but in 2024 the top 1% of earners in the UK paid 29% of all income tax raised and so Governments need to keep two important factors in mind when taxing this group.

Firstly, they are highly skilled, think doctors, lawyers and finance professionals, which means they are in demand all over the world and secondly, they are highly mobile, which means they are more likely to leave the country when economic conditions become disadvantageous for them.

I raise these points, not to defend the well off, they are more than capable of defending themselves, but to get policy makers to think differently about maximising tax revenue to fund public services. My concern is that the tax rate rises in the last Budget had a negative economic impact creating a gap in the public finances, and the Government's response in the up-coming Budget will be to raise taxes even further. They could be digging an even deeper hole for themselves.

Although these comments are directed at Westminster, there are also important lessons for local politicians in the Assembly and across our Councils. The only significant tax raising measures devolved locally are domestic and non-domestic rates. Therefore, to raise additional revenue Councils or the Executive typically increase the rate-poundage, that is the amount you pay based on the rateable value of your property, so the higher the poundage, the higher your rates bill.

As with other taxes, increasing the poundage only works up to a point. As non-domestic rates increase, they become more unaffordable leading some businesses to close and hence potentially reducing revenues raised. We are not at that point yet, but with the other economic challenges facing businesses, a tipping point will be reached sooner or later.

So what is the solution? Rather than increase the amount of tax paid by individual employees, households and businesses, policy should focus on growing the number of employees, households and businesses paying tax. Supporting businesses to invest and create more employment is the best way to increase revenue. This also holds for domestic rates, rather than charge higher rates on individual households, increase the number of households paying rates.

In February this year, NI Water indicated that 18,000 housing developments were on hold because of wastewater infrastructure constraints. That refers to developments, not individual housing units, but with the average household rates bill in Northern Ireland approximately £1,200, that equates to a minimum of £21.6 million in lost rates revenue in a single year.

That is based on one house per development, so in reality the revenue lost would be much higher because developments are typically made up of multiple housing units.

In short, current policy decisions are "leaving a lot of money on the table" at a time when public services need investment. Increasing the tax rate is not always the answer, rather increasing the tax base by growing the economy must be the priority.

Article first published in the Irish News on 2nd September 2025

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