

## Close five tax loopholes to raise over £7 billion a year

The government could raise £7.5 billion a year for vital public services by closing unfair tax loopholes, according to new Tax Justice UK research.<sup>1</sup>

The situation facing the Chancellor on the eve of his Autumn Statement is stark. The NHS is perpetually in crisis, school buildings are crumbling, and people are struggling with a severe cost-of-living crisis, with another unaffordable winter looming. Public finance solutions are needed more urgently than ever, particularly with the growing demand for increased spending on public services.<sup>2</sup>

Tax Justice UK analysis demonstrates that closing just five tax loopholes, which benefit wealthy individuals and multinational companies, could raise £7.5 billion a year. To give a sense of the scale of this subsidy, this could pay for all nursing and teacher vacancies across the UK with change to spare.<sup>3</sup>

These revenue-generating recommendations are put forward ahead of the Chancellor's Autumn Statement to offer feasible, pragmatic solutions to mounting crises. The policies have widespread support from economists, academics and respected think-tanks - including the Institute for Fiscal Studies (IFS) and The Resolution Foundation. Considering there are multiple tax loopholes that would benefit from being closed, these five are just a snapshot of the options available to Jeremy Hunt.

The UK tax code is littered with inefficiencies, inequities and special treatment for favoured interest groups and the wealthiest. Much of this goes untracked, with the UK's tax watchdog HMRC recently admitting that it only knows the cost - and impact - of 365 of the UK's 1180 tax reliefs.<sup>4</sup> The system's

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<sup>1</sup> The figures in this briefing are static estimates, largely based on the current cost of these tax reliefs to taxpayers, as of data available in November 2023. It is difficult to take account of all of the effects of abolishing these loopholes. For example, predicting the behavioural response of individuals and firms is complex and contentious. These figures highlight the fact that tax reliefs cost billions every year and represent a priority avenue for the government to raise much needed revenues.

<sup>2</sup> McKeon, 'Public wants more from government now than at any point in decades, survey finds', The Independent, 21 September 2023, <https://www.independent.co.uk/news/uk/labour-john-curtice-people-bsa-liz-truss-b2415495.html> ; Institute for Government, 'Performance Tracker 2023', 30 October 2023, <https://www.instituteforgovernment.org.uk/publication/performance-tracker-2023>

<sup>3</sup> This is based on nurse vacancies, which stand at 43,000, based on: <https://www.nursingtimes.net/news/workforce/nurse-vacancies-in-england-remain-high-at-more-than-43000-03-03-2023/>; And teacher vacancies, which stand at 2,300, based on: <https://explore-education-statistics.service.gov.uk/find-statistics/school-workforce-in-england>. We take the average pay of a nurse to be £37,000, based on: <https://www.nurses.co.uk/blog/a-quick-overview-of-nurses--salaries-in-the-uk/>; And the prospective starting salary of a teacher in England of £30,000, based on: <https://neu.org.uk/advice/your-rights-work/pay/pay-scales/pay-scales-england>

<sup>4</sup> UK Parliament, 'Treasury Committee calls for action on complex, un-costed and exploited tax reliefs in new report', 26 July 2023

complexity makes it easier for the wealthy and well-advised to avoid paying their fair share. Furthermore, well-organised lobbies usually form to protect their sweetheart deals, making fair and transparent policy-making more difficult. Closing these inequities in the tax system would not only improve fairness but make our taxes and economy more efficient.

These five recommendations show that there is money available to tackle the urgent issues facing ordinary people. Instead of sinking into fatalism and apathy, the Chancellor should use his Autumn Statement to raise urgent revenues and tackle NHS waiting lists and declining living standards.

These recommendations sit alongside Tax Justice UK's more ambitious policies for long term tax reform, outlined in our [six wealth tax policies to raise £50 billion](#).

### 1. End fossil fuel subsidies for oil and gas companies to raise £4.4 billion a year

Despite oil companies' record profits since the war in Ukraine, the UK taxpayer continues to fund a loophole for the industry that the IFS has characterised as a "huge tax subsidy".<sup>5</sup> This is because the 'windfall tax' (Energy Profits Levy) implemented by the government contains "indefensibly generous" investment allowances.<sup>6</sup> This loophole enables oil companies to claw back roughly £45 for every £100 spent on new UK oil and gas projects.<sup>7</sup> This costs the taxpayer approximately **£2 billion a year**.<sup>8</sup> Additionally, Oxfam estimates taxpayers subsidise oil and gas companies in the North Sea for activities such as exploration and decommissioning to the tune of **£2.2 billion**.<sup>9</sup> The UK taxpayer should not be

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<https://committees.parliament.uk/committee/158/treasury-committee/news/196683/treasury-committee-calls-for-action-on-complex-uncosted-and-exploited-tax-reliefs-in-new-report/>

<sup>5</sup> Institute for Fiscal Studies, 'IFS response to government cost of living support package', 26 May 2022

<https://ifs.org.uk/articles/ifs-response-government-cost-living-support-package>

<sup>6</sup> Richard Vaughan, 'Windfall tax loophole for oil and gas firms 'indefensibly generous' as energy profits increase tenfold', The i, July 27 2023,

<https://inews.co.uk/news/politics/windfall-tax-loophole-oil-gas-firms-indefensibly-generous-energy-profits-increase-tenfold-2510171>

<sup>7</sup> #StopCambo, 'UK Windfall tax loophole explained', February 6 2023,

<https://www.stopcambo.org.uk/updates/uk-windfall-tax-explained>

<sup>8</sup> The OBR estimates that £25.3bn will be spent on new oil and gas projects between the second half of 2022 and the end of 2027, which the Stop Rosebank campaign calculates will result in £11.4bn in tax relief over the same period, source <https://www.stopcambo.org.uk/updates/uk-windfall-tax-explained>. Our calculation is based on the average yearly cost of the loophole.

<sup>9</sup> Oxfam (2023), Payment Overdue: Fair ways to make polluters across the UK pay for climate justice, Available at:

<https://oxfamlibrary.openrepository.com/bitstream/handle/10546/621539/bp-payment-overdue-fair-ways-to-make-UK-polluters-pay-180923-en.pdf;jsessionid=5188681D09665B58D19ADD8752067881?sequence=1>. Further

information on the breakdown of the subsidies can be found in Oxfam's methodology note, available at:

<https://oxfamlibrary.openrepository.com/bitstream/handle/10546/621539/mn-payment-overdue-fair-ways-to-make-UK-polluters-pay-180923-en.pdf?sequence=3https://oxfamlibrary.openrepository.com/bitstream/handle/10546/621539/mn-payment-overdue-fair-ways-to-make-UK-polluters-pay-180923-en.pdf?sequence=3>. The £2.2 billion

total is the annual average from 2017-21, of the following reliefs listed in OECD data: Ring-fence expenditure supplement; Onshore allowance; Petroleum Revenue Tax: Tax relief for decommissioning expenditure; Investment Allowance; Transferable Tax History; and Ringfence oil and gas trades: corporate income tax relief for decommissioning expenditure. These reliefs are particularly complex in their design and while we recognise there

footing the bill for polluting, highly profitable fossil-fuel companies, nor their cleanups. These climate-wrecking incentives must be shut down by the Chancellor as a priority not just to boost Treasury coffers but to speed up the transition to a low-carbon economy.

## 2. End classic car exemption to raise £130 million a year<sup>10</sup>

Vehicles constructed more than 40 years before the 1 January of any year are exempt from paying vehicle excise duty. This subsidy for classic cars is a bizarre tax break, which highlights the inequities that have crept into the UK's unwieldy tax system. At a time when people can't afford to make ends meet, taxpayers should not subsidise an arbitrary tax break for a polluting hobby that could cover over 3500 new nurses' salaries a year.<sup>11</sup>

## 3. End video games tax relief to raise £197 million

Video Games Tax Relief (VGTR) cost a record £197 million in 2022.<sup>12</sup> Despite being designed as a relief to help independent developers produce "culturally British" games, evidence shows it is large, often multinational firms that are benefitting. HMRC data shows that claims over £500,000 account for 88% of the total amount paid out.<sup>13</sup> And one big company in particular seems to benefit from the lion's share: US-owned company Rockstar, who produce Grand Theft Auto, revealed it obtained almost £80 million in VGTR in 2021-2022 - 41% of all VGTR paid out in the UK.<sup>14</sup>

## 4. Close capital gains tax loopholes to raise £1.1 billion a year<sup>15</sup>

'Business Asset Disposal Relief' is a tax break that lowers capital gains tax from 20% to 10% on the first £1 million of gains, when a person sells their company. This loophole has come under repeated criticism, including from think-tanks The Resolution Foundation and the IFS.<sup>16</sup> There is little evidence that this tax break affects entrepreneurial activity, and the prospect of slightly lower taxes at the end of a person's involvement with a business is not well-targeted in a business' lifecycle, according to The Resolution

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may be broader policy change and detailed assessments to take into account, ultimately our tax system should not subsidise oil and gas extraction if we want to meet our net zero targets.

<sup>10</sup> UK government official statistics on 'Structural tax reliefs', taken from 'Estimated cost of structural tax reliefs (January 2023)' available at:

<https://www.gov.uk/government/statistics/minor-tax-expenditures-and-structural-reliefs>

<sup>11</sup> This calculation is based on the average salary for a Nurse in the UK in 2023, which is taken to be £37,000, source available here: <https://www.nurses.co.uk/blog/a-quick-overview-of-nurses--salaries-in-the-uk/>

<sup>12</sup> Alex Dunnagan, 'Video Games Tax Relief costs five times as much as forecast', January 27 2023

[https://www.taxwatchuk.org/creative\\_relief\\_vgtr\\_2023/](https://www.taxwatchuk.org/creative_relief_vgtr_2023/)

<sup>13</sup> HMRC, 'Creative industries statistics commentary: August 2022', 18 August 2022,

<https://www.gov.uk/government/statistics/creative-industries-statistics-august-2022/creative-industries-statistics-commentary-august-2022>

<sup>14</sup> Alex Dunnagan, 'Video Games Tax Relief costs five times as much as forecast', January 27 2023

[https://www.taxwatchuk.org/creative\\_relief\\_vgtr\\_2023/](https://www.taxwatchuk.org/creative_relief_vgtr_2023/)

<sup>15</sup> Adam Corlett, 'Five bad ways to hand out £4 billion a year', 12 January 2023,

<https://www.resolutionfoundation.org/comment/five-bad-ways-to-hand-out-4-billion-a-year/>

<sup>16</sup> Adam Corlett, 'Five bad ways to hand out £4 billion a year', 12 January 2023,

<https://www.resolutionfoundation.org/comment/five-bad-ways-to-hand-out-4-billion-a-year/>; IFS, 'Where next for capital gains?', 17 September 2020 [https://ifs.org.uk/sites/default/files/output\\_url\\_files/What-next-for-CGT.pdf](https://ifs.org.uk/sites/default/files/output_url_files/What-next-for-CGT.pdf)

Foundation.<sup>17</sup> Considering there is an extremely strong consensus amongst economists and think-tanks around bringing capital gains tax in line with income tax at 40% (this is also one of [Tax Justice UK's six wealth tax policies](#)), it is indefensible that a loophole further enables a carve out to a mere 10%. There is no sound reason why a person earning their income from selling a profitable business should pay a far lower tax rate than a person paying tax on their wages.

#### 5. Close inheritance tax loopholes to raise £1.7 billion a year<sup>18</sup>

Inheritance tax has a multitude of loopholes that enable wealthy estates to engineer their finances to avoid paying their fair share. This is evidenced by the fact that estates worth over £10 million pay an effective average tax rate of just 10% despite a headline IHT rate of 40%.<sup>19</sup>

The Chancellor should reform 'business' and 'agricultural property' inheritance tax reliefs, which could raise **£1.5 billion a year**.<sup>20</sup> Evidence shows a small minority of very wealthy estates use these loopholes to avoid paying their full rate of inheritance tax.<sup>21</sup> Abuse of agricultural property relief is pushing up the price of agricultural land, which is pricing poorer farmers out of the market.<sup>22</sup> The Resolution Foundation, IPPR and the IFS have all put forward alternative policy designs, most recently with the IFS's suggestion to cap business relief at £500,000, which we have used to calculate our revenue figure.<sup>23</sup>

The Chancellor should also remedy the fact that **pension wealth** is exempt from Inheritance Tax, which could raise **£200 million a year**.<sup>24</sup> This enables heirs to receive a 'defined contribution pension' tax-free if the deceased dies before they are 75. This creates a bizarre imbalance, with inherited pensions benefitting from more favourable tax treatment than if it were used to fund retirement. It also distorts

<sup>17</sup> Adam Corlett, 'Five bad ways to hand out £4 billion a year', 12 January 2023,

<https://www.resolutionfoundation.org/comment/five-bad-ways-to-hand-out-4-billion-a-year/>

<sup>18</sup> Our calculations come from: Advani and Sturrock, 'IFS Green Budget Chapter 7 R275: Reforming inheritance tax', The Institute for Fiscal Studies, September 2023,

<https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf>

<sup>19</sup> Office of Tax Simplification, 'Inheritance Tax Review – first report: Overview of the tax and dealing with administration', November 2018

[https://assets.publishing.service.gov.uk/media/5bf67ee4e5274a2af111f68b/Final\\_Inheritance\\_Tax\\_Report\\_-\\_web\\_copy.pdf](https://assets.publishing.service.gov.uk/media/5bf67ee4e5274a2af111f68b/Final_Inheritance_Tax_Report_-_web_copy.pdf)

<sup>20</sup> £1.1 billion by capping Business Relief at £500,000 and £400 million from abolishing Agricultural Property Relief, from: Advani and Sturrock, 'IFS Green Budget Chapter 7 R275: Reforming inheritance tax', The Institute for Fiscal Studies, September 2023, <https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf>

<sup>21</sup> Tax Justice UK, 'In Stark Relief', June 2019

[https://www.taxjustice.uk/uploads/1/0/0/3/100363766/in\\_stark\\_relief\\_final\\_lr.pdf](https://www.taxjustice.uk/uploads/1/0/0/3/100363766/in_stark_relief_final_lr.pdf)

<sup>22</sup> Adam Corlett, 'Passing on: Options for reforming inheritance taxation', The Resolution Foundation, May 2018, <https://www.resolutionfoundation.org/app/uploads/2018/05/IC-inheritance-tax.pdf>

<sup>23</sup> Adam Corlett, 'Passing on: Options for reforming inheritance taxation', The Resolution Foundation, May 2018, <https://www.resolutionfoundation.org/app/uploads/2018/05/IC-inheritance-tax.pdf>; Roberts, Blakely and Murphy, 'A Wealth of Difference: Reforming the taxation of wealth', IPPR, October 2018, <https://www.ippr.org/files/2018-10/cej-a-wealth-of-difference-sept18.pdf>; Advani and Sturrock, 'IFS Green Budget Chapter 7 R275: Reforming inheritance tax', The Institute for Fiscal Studies, September 2023, <https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf>

<sup>24</sup> Advani and Sturrock, 'IFS Green Budget Chapter 7 R275: Reforming inheritance tax', The Institute for Fiscal Studies, September 2023, <https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf>

behaviour, creating an incentive for wealthy individuals to avoid drawing down on their pension, if they have other resources available. Economists have also raised particular concerns since pensions already receive significant tax advantages.<sup>25</sup>

Inheritance tax is forecast to raise £7 billion in 2024. Consequently, reforms to loopholes that cost £1.7 billion a year, represents 24% of the tax's overall value - a significant revenue-raiser.<sup>26</sup>

### ***About Tax Justice UK***

Tax Justice UK is a campaigning and advocacy organisation. Our mission is to ensure that everyone in the UK benefits from a fair and effective tax system. We are not-for-profit and politically non-aligned. Tax Justice UK is a partner of (but independent from) the Tax Justice Network.

For more information visit: [www.taxjustice.uk](http://www.taxjustice.uk)

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<sup>25</sup> Advani, Hughson and Tarrant; 'Revenue and distributional modelling for a UK wealth tax'; Fiscal Studies The Journal of Applied Public Economics, 25 October 2021, <https://onlinelibrary.wiley.com/doi/10.1111/1475-5890.12280>

<sup>26</sup> Advani and Sturrock, 'IFS Green Budget Chapter 7 R275: Reforming inheritance tax', The Institute for Fiscal Studies, September 2023, <https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf>