



Institute of
Economic Affairs

THE ALTERNATIVE BUDGET 2026

SIMPLER TAXES,
SOUND FINANCES

Dr Valentin Boboc

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SOUND FINANCES

An alternative to the Government's Budget, setting out how the public finances could be returned to health through simpler taxes and spending restraint.

Dr Valentin Boboc

Chief Economist, Institute of Economic Affairs

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Author: Dr Valentin Boboc, Chief Economist, Institute of Economic Affairs

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Executive summary

- 1** The starting point for the 2026 Budget is weak economic growth, persistent deficits and rising national debt. The most recent OBR forecast puts GDP growth at just 1.1% in 2026, with government borrowing of £115.5 billion and annual debt-interest costs of £89 billion.
- 2** The first priority of the Alternative Budget is to make taxation more efficient and shift the burden away from income and transactions and towards consumption. This would be done by broadening VAT in order to finance substantial tax reductions, including income tax reform and the abolition of Stamp Duty Land Tax and inheritance tax.
- 3** The second priority is to bring rising national debt and the deficit under control by combining more sensible taxation with spending restraint. Welfare spending would be frozen in cash terms, with its ceiling then reduced by 0.85% annually for three years. The pension triple lock would be suspended and the basic State Pension would be frozen over that period.
- 4** The Alternative Budget projects a current budget surplus of £7.8 billion in 2027 – 28. The measures would reduce national debt to 91.6% of GDP by the end of this Parliament.
- 5** The longer-term aim is to make decisions which are conducive to economic growth, innovation and productivity by removing barriers to investment and enterprise, supported by healthy public finances.

£7.8bn	91.6%	£127.2bn	£75.0bn
current budget surplus in 2027 – 28	net debt as a share of GDP by 2030 – 31	cumulative reduction in borrowing	raised from broadening VAT in 2027 – 28

1

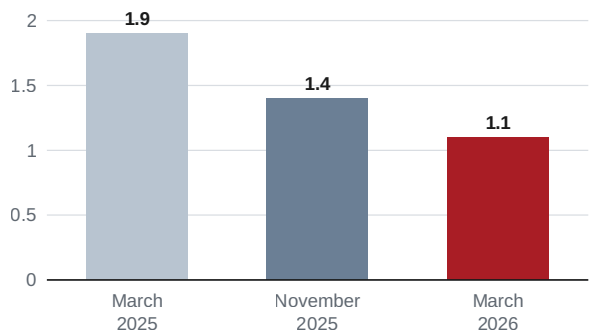
Fiscal outlook

- 1.1** The starting fiscal position combines weak underlying economic growth with public debt close to annual national output. The OBR’s March 2026 forecast lowered expected economic growth in 2026 to 1.1%, down from 1.9% in March 2025 and 1.4% in November 2025.
- 1.2** Economic growth has been positive but modest. Real GDP grew by 0.6% in the first quarter of 2026 and 0.4% in the second quarter, whilst per capita GDP increased by 0.4% in the second quarter.
- 1.3** The OBR’s March forecast projected inflation to average about 2.3% in 2026. The latest observed figure in July was 2.9%.
- 1.4** Regular earnings grew by 3.5%, but by only 0.5% after allowing for inflation measured by CPIH, which includes owner-occupiers’ housing costs. Households therefore still face cost of living pressures, mostly due to sluggish wage growth.

Chart 1.1: Forecasts for GDP growth and CPI inflation in 2026

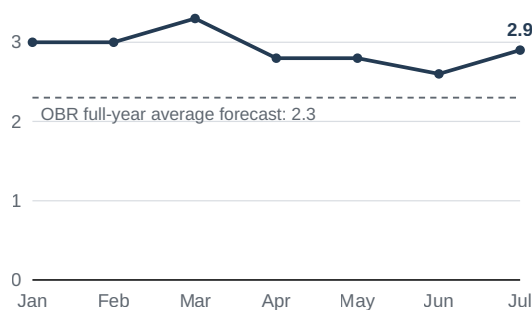
GDP growth forecast for 2026

Per cent, calendar year



CPI inflation during 2026

Per cent, annual rate in each month



Source: OBR (2025a, 2025b, 2026); ONS (2026b).

- 1.5** The OBR reduced its trend productivity growth assumption (a measure of sustainable growth in output per hour) from around 1.25% in March 2025 to 1% in November 2025.
- 1.6** Recent productivity figures based on payroll records showed output per hour rising by 0.7% in the year to the second quarter of 2026, whilst the Labour Force Survey measure showed a fall of 0.2%.
- 1.7** The March forecast put public sector net borrowing at £115.5 billion in FY 2026 – 27, projected to fall to £59.0 billion in 2030 – 31. Borrowing in April to July 2026 was £56.7 billion, approximately £6.0 billion lower than in the same period a year earlier, but £2.3 billion above the OBR’s £54.4 billion forecast for that period.

- 1.8** Current revenues have not been sufficient to offset the higher expenditure commitments. In the first quarter of the current FY, government receipts were £2.8 billion above the OBR forecast, whilst expenditure was £5.1 billion higher (ONS, 2026e).

Table 1.1: Borrowing against the OBR profile, April to July 2026 (£ billion)

	OBR forecast	ONS estimate	Difference
Central government receipts	370.0	372.8	+2.8
Central government expenditure	438.2	443.3	+5.1
Central government net borrowing	68.2	70.5	+2.3
Local government net borrowing	-5.8	-8.2	-2.5
Public corporations net borrowing	-8.0	-5.6	+2.4
Public sector net borrowing	54.4	56.7	+2.3

Source: ONS (2026e).

- 1.9** The March forecast put public sector net debt interest at £89.0 billion in 2026 – 27, rising to £112.9 billion in 2030 – 31. High debt leaves public finances exposed to various risks when it comes to interest rate fluctuations and debt refinancing.

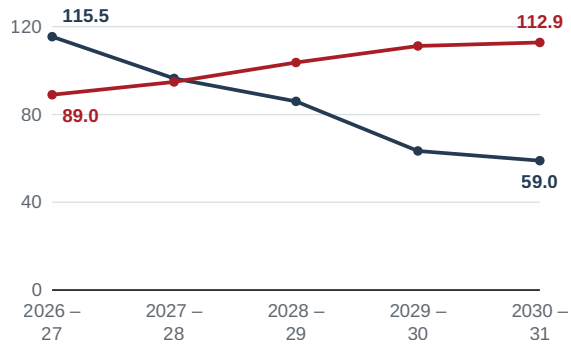
Table 1.2: The March 2026 OBR fiscal baseline (£ billion unless stated)

	2026 – 27	2027 – 28	2028 – 29	2029 – 30	2030 – 31
Net borrowing	115.5	96.5	86.0	63.4	59.0
Current budget deficit	33.9	4.6	-3.3	-23.6	-30.3
Net investment	81.5	91.9	89.3	87.0	89.3
Net debt interest	89.0	94.9	103.7	111.3	112.9
Net debt	3,053	3,191	3,319	3,427	3,514
Net debt (per cent of GDP)	94.8	95.7	96.3	96.1	95.1

Source: OBR (2026).

Chart 1.2: Forecast borrowing, net debt interest and public sector net debt**Borrowing and net debt interest**

£ billion, financial year

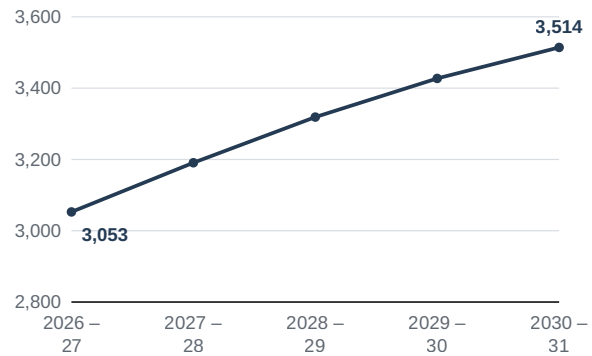


— Borrowing — Net debt interest

Source: OBR (2026), Table A.9.

Public sector net debt

£ billion, end of financial year



1.10 The Alternative Budget uses the March 2026 OBR forecast as the yardstick for further calculations in this paper. In particular, we do not assume that tax simplification will immediately generate economic growth, lower gilt yields or enlarge the tax base. The aim is to keep all estimates conservative. This will also ensure that the proposed fiscal consolidation measures will be even more impactful if they are accompanied by a strong pro-growth policy agenda.

2

Fiscal consolidation

Overview

- 2.1** Given the current poor trajectory of GDP growth and national debt, there is little scope for financing further state spending from future increases in output.
- 2.2** Given the instability of national debt figures and the high costs of debt servicing, the Government should consider committing to a programme of fiscal consolidation for the medium term, which can bring borrowing under control and return public finances to a healthy steady state.
- 2.3** The key components of a fiscal consolidation programme involve: (a) maintaining and/or increasing revenues; and (b) reducing spending.
- 2.4** Previous attempts at fiscal consolidation in recent history have mostly focused on increasing revenues through increasing taxes with narrow bases, which largely failed to provide substantial increases in revenue. Moreover, relying on taxes which have either narrow or mobile bases risks creating distortions which reduce economic activity and shrink the tax base even further.
- 2.5** Moreover, such measures often lead to the tax system becoming more complex and harder to navigate for individuals and businesses.
- 2.6** The Alternative Budget focuses on taking measures to simplify taxation and to reduce spending. The focus is to reduce taxes which raise little revenue or act in distortionary ways and optimise broad-base tax collection, such as consumption and income taxes. The spending reductions will focus on phasing modest cuts to large items in the current spending distribution.
- 2.7** The purpose of the Alternative Budget is to show how the current Parliament can use the remaining three years to put public finances on a sustainable path and engage in a wide public conversation around the purpose and the scope of the state.

Moving to a broad-based consumption tax

- 2.8** The Alternative Budget would institute a Value Added Tax (VAT) of 20% on a much wider range of domestic consumption. Zero, reduced rates and most exemptions would be abolished.
- 2.9** This proposal would bring food, water and passenger transport within the scope of VAT. The aim is to ensure that Britain's main consumption tax raises revenue more efficiently from a broad base at the existing rate and reduces the administrative burden on businesses which currently face high levels of complexity.
- 2.10** The key economic argument for a uniform VAT rate is that similar consumption should face similar tax. Exemptions and preferential rates change relative prices and encourage disputes over classification.

2.11 A secondary argument concerns the potential growth benefits of a well-designed tax system. Acosta-Ormaechea and Morozumi (2019) studied the impacts of shifting the tax burden from income taxation towards consumption taxation across various OECD countries. They found that such a shift is associated with stronger long-run growth when the additional consumption tax comes from improved coverage.

2.12 Table 2.1 shows an approximation of the additional revenue that would result from extending VAT to virtually all goods and services in the UK market, based on HMRC data (HMRC 2026a).

Table 2.1: Estimated gains from VAT broadening

Calculation	£ billion
Published non-structural and structural relief estimates	140.4
Less:	
Public-body refund schemes	31.3
Finance and insurance treatment	19.0
Prescription-drug relief	4.0
Existing-policy overlaps and expiry adjustment	−0.4
Adjusted reference-year amount	86.5
Upated by baseline VAT receipts (197.8 / 180.9)	93.7
Retaining 80 per cent of the estimate	75.0

Source: HMRC (2026a).

2.13 The calculation excludes public-body VAT refunds worth £31.3 billion because the Government can only pay tax to itself in accounting terms and such refunds do not represent a real resource transfer. The calculation also excludes the £19 billion finance and insurance exemption. This is to avoid the complications that may arise from coordinating this treatment of financial services with the Insurance Premium Tax. In the future, the Government may consider scrapping the Insurance Premium Tax in order to simplify taxation further.

2.14 We further assume that only 80% of the initial estimate is retained in order to create some concrete policy flexibility and to ensure that all estimates are feasible.

2.15 Uniform rates should simplify product classification, but removing the registration threshold increases the number of businesses that need to keep records and file returns (OECD 2024). Overall, this measure should reduce the overall administrative burden, simplify taxation and reduce the distortionary effects of the current VAT regime.

Welfare spending ceiling

2.16 The key spending proposal of the Alternative Budget is to take control of welfare spending, by freezing the current nominal level of the welfare budget and implementing annual reductions of 0.85% for the remaining fiscal years of this Parliament. This would create an effective ceiling for welfare spending of £349.8 billion in FY 2027 – 28, £346.8 billion in FY 2028 – 29, and £343.9 billion in FY 2029 – 30 (OBR 2026).

- 2.17** The spending ceiling can be achieved through a variety of policy measures. The Alternative Budget is agnostic towards the exact combination of policies. The proposal concentrates purely on fiscal impacts.
- 2.18** Compared to the OBR forecast, the welfare ceiling will produce gross savings of £13.257 billion, £26.985 billion and £46.038 billion in the three years of reductions.
- 2.19** The calculation deducts 10% of these savings for the associated loss of income tax and VAT receipts. On that basis, the three-year contribution of the welfare spending ceiling to fiscal consolidation is £77.652 billion (see Table 2.2 for details).

Table 2.2: The fiscal impact of the welfare ceiling (£ billion)

	2026 – 27	2027 – 28	2028 – 29	2029 – 30	2030 – 31
OBR baseline	352.8	363.1	373.8	389.9	406.9
Cash ceiling	352.8	349.8	346.8	343.9	343.9
Gross saving	0.0	13.3	27.0	46.0	63.0
Tax receipts lost (10 per cent allowance)	0.0	–1.3	–2.7	–4.6	–6.3
Net contribution	0.0	11.9	24.3	41.4	56.7

Source: OBR (2026).

- 2.20** Note that the State Pension is within the scope of the welfare spending ceiling. Likewise, the triple lock policy would be suspended for three years, with the full basic State Pension frozen at £184.90 per week (DWP 2026; OBR 2026).
- 2.21** The OBR's review of the 2015 welfare package found that reversals, delays and concessions made it impossible to achieve planned savings. The review found that the most effective way to control welfare spending is by restricting award growth. The four-year uprating freeze reduced the real value of affected benefit rates by 6.1% by 2019 – 20, compared with the 4.6% originally expected (OBR 2019).

Tax simplification measures

- 2.22** The additional revenues raised through VAT broadening and spending reductions can be used to finance a reduction in other taxes which have a markedly negative impact on economic activity.
- 2.23** The objective is to reduce barriers to economic activity and make taxation and compliance with taxation simpler.
- 2.24** The tax reductions begin in April 2027 and are scored at their direct revenue cost. The Alternative Budget makes no further assumptions about any additional benefits of an improved and simplified tax system. In particular, the Alternative Budget does not assume that reducing or removing transaction taxes will necessarily produce additional transactions. These conservative assumptions are made to ensure that these measures are aggressively costed and that national debt is effectively managed even if all these measures are economically neutral. Moreover, operating on these assumptions would bring public finances in an even stronger position, should the economy overall experience larger growth or productivity as a result of a more optimised tax system.

Abolishing Stamp Duty Land Tax

- 2.25** Stamp Duty Land Tax (SDLT) would be abolished in England and Northern Ireland from April 2027. The repeal would cover both residential and non-residential transactions.
- 2.26** The Scottish Land and Buildings Transaction Tax, the Welsh Land Transaction Tax and the Annual Tax on Enveloped Dwellings will be left as devolved matters.
- 2.27** A household considering a move faces multiple upfront costs, ranging from deposits, legal fees, removals and tax. SDLT increases these costs even when a move leaves the household with little change in its net housing wealth. SDLT can therefore deter a move that would otherwise improve the household's circumstances.

Table 2.3: Sample SDLT calculations on the purchase of an existing home

Purchase price	Current SDLT
£250,000	£2,500
£300,000	£5,000
£500,000	£15,000
£1,000,000	£43,750

Source: HMRC (n.d.).

- 2.28** Best and Kleven (2018) examined administrative property records from 2004 to 2012, including a temporary stamp duty holiday that removed 1% of the tax. Transactions increased by 20% in the short run, with changes covering both timing and additional transactions that would not have taken place otherwise.
- 2.29** Hilber and Lyytikäinen (2017) estimated that the former increase in SDLT from 1% to 3% at £250,000 reduced annual mobility by 2.6% around that threshold.
- 2.30** HMRC research on the 2016 non-residential reform estimated that a 1% increase in the effective tax rate reduced transactions by about 11.7% (Owen, Fradley and Claridge 2021).
- 2.31** SDLT abolition is projected to result in a revenue loss of £19.2 billion in FY 2027 – 28, rising to £23.0 billion in FY 2029 – 30.

Abolishing inheritance tax

- 2.32** Inheritance tax would also be abolished from April 2027. The Alternative Budget takes the view that households should have greater freedom to transfer accumulated wealth to the people of their choice. With this in mind, abolishing inheritance tax would remove the incentive to arrange assets and transfers around tax treatment.
- 2.33** A study of Greek tax reforms found that succession taxes reduced investment around family transfers by more than 40% (Tsoutsoura 2015).

- 2.34** Following Sweden's abolition of inheritance and gift taxes in 2004 – 05, a study of approximately 37,000 private firms found stronger sales growth, profitability and productivity among firms with potential family successors than comparable firms without successors. Corporate tax payments also increased, although the findings do not establish that abolition was self-financing (Andric, Genedy and Nordqvist 2026).
- 2.35** The fiscal cost is approximately £11.2 billion in FY 2027 – 28 and £13.7 billion in FY 2029 – 30.

Abolishing customs tariffs

- 2.36** The Alternative Budget would abolish customs tariffs from April 2027 to reduce the cost of goods entering the British market. This would reduce shop prices for affected imports and lower costs for businesses that use imported inputs.
- 2.37** Abolishing all customs duties would come with a projected revenue loss of circa £5.4 billion in FY 2027 – 28, rising to £6.3 billion in FY 2029 – 30. The retained costing also accounts for associated VAT losses of £0.5 billion and £0.6 billion respectively, bringing the combined costs to £5.9 billion and £6.9 billion.
- 2.38** It was found that the 2018 US tariffs were fully reflected in domestic import prices, with an estimated real-income loss of \$1.4 billion a month by the year's end, with domestic consumers bearing the burden of the new tariffs (Amiti, Redding and Weinstein 2019).
- 2.39** In a study of Indonesian manufacturing between 1991 and 2001, it was estimated that a 10% reduction in input tariffs raised productivity by 12% among firms which imported their raw materials. Access to more suitable, better-quality or more varied inputs can improve what domestic firms produce and how efficiently they operate (Amiti and Konings 2007).

Removing non-performing taxes

- 2.40** The Alternative Budget would also abolish the following taxes:

2.40.1 Bearer Instrument Duty	2.40.5 Annual Tax on Enveloped Dwellings
2.40.2 Bank Levy	2.40.6 Vaping Products Duty
2.40.3 Bank Surcharge	2.40.7 Building Safety Levy
2.40.4 Digital Services Tax	2.40.8 Air Passenger Duty

- 2.41** This package of cuts would cost under £5 billion, with some of these taxes currently raising no revenue due to being either legacy taxes or too new to have raised any revenue.

Income tax simplification

- 2.42** The Alternative Budget would abolish the personal allowance and apply a small cut in income tax. This would be achieved by introducing a new 'Lower Rate' income tax band for incomes between £0 and £20,000, levied at 6.5%.
- 2.43** The Basic Rate of 20% would then apply from £20,000 to £52,000, with some further adjustments for the remaining thresholds (see Table 2.4 for full details).

Table 2.4: The new income tax schedule

Gross annual income	Marginal rate
£0 to £20,000	6.5%
Over £20,000 to £52,000	20%
Over £52,000 to £110,000	40%
Over £110,000	45%

- 2.44** In particular, removing the personal allowance also removes its taper above £100,000, thus removing one of the more complex cliff edges in British taxation.
- 2.45** Under the current system, losing £1 of allowance for every £2 of additional income creates an effective marginal income tax rate of 60% until the allowance disappears completely at £125,140. The Alternative Budget's proposal improves the transparency of income tax rates, makes the overall tax schedule simpler and broadens the base of income tax, whilst protecting working people on low incomes.
- 2.46** Moreover, as a further step towards simplification, employee National Insurance would be levied at a flat rate of 4.25%, keeping total revenue from employee National Insurance Contributions approximately stable.
- 2.47** Moreover, employer National Insurance would be applied at a flat rate of 11.5%, saving employers approximately £21 billion in FY 2027 – 28.
- 2.48** These changes could be used as a stepping stone for potentially abolishing employee National Insurance. Phasing out could be achieved with successive cuts once budget surpluses are realised, or by outright merging the flat rate of National Insurance with income tax.
- 2.49** Table 2.5 shows a summary of these simplification proposals.

Table 2.5: Combined marginal rates of income tax and employee National Insurance

Earnings band	Income tax	Employee NI	Combined marginal rate
£0 to £20,000	6.50%	4.25%	10.75%
£20,000 to £52,000	20.00%	4.25%	24.25%
£52,000 to £110,000	40.00%	4.25%	44.25%
Above £110,000	45.00%	4.25%	49.25%

- 2.50** The fiscal cost is £12.4 billion in FY 2027 – 28, £13.3 billion in FY 2028 – 29 and £14.2 billion in FY 2029 – 30. The estimate is based on HMRC's taxpayer income distribution data (HMRC 2026b).
- 2.51** This calculation treats incomes as salary equivalents, and it does not model separate behaviours for savings, dividend rules, deductions or any other behavioural responses in taxable income.

3

Promoting growth and stable public finances in the medium and long term

Planning liberalisation

- 3.1** The Government could consider granting development rights in designated growth areas throughout the country, particularly around transport hubs and productive urban areas, subject to clear guidelines. Greater certainty and a more sensible regulatory burden would reduce development costs and encourage investment in new homes, offices, etc.
- 3.2** This should come with a commitment to speed up planning decisions for major projects. Faster approval of factories, laboratories, transport and energy infrastructure would allow businesses to expand sooner and cheaper.
- 3.3** The Government may also consider allowing councils to retain a predictable share of additional revenues from development to fund infrastructure. Further devolution, where local governments are responsible for their revenue raising and spending, would encourage more competition in the tax and regulatory spheres as local governments compete for growth opportunities.

Shrinking arm's length bodies

- 3.4** The Government may consider a wholesale review of each organisation's purpose, powers and performance, concentrating resources on functions with a clear public benefit. The aim would be to reduce overlapping responsibilities and reduce the costs of doing business.
- 3.5** Each government department could receive a mandate to reduce the spending associated with its arm's length bodies. Once a review of spending is carried out, many organisations could be re-absorbed into their home departments, keeping only key responsibilities.
- 3.6** An initial review could initially cover five arm's length bodies and their successor functions: NHS England, Natural England, Homes England, the Environment Agency and the Care Quality Commission. Using the Cabinet Office's 2023 – 24 figures, their combined government-funded budgets amounted to £179.89 billion. A 25% reduction would imply a gross annual reduction of £44.97 billion at those funding levels, although net savings would have to take into account adjustments for transition costs, retained responsibilities and other costs and savings.

Increasing the ISA allowance to £50,000 and introducing an ISA-exclusive Defence Bond

- 3.7** The Alternative Budget would propose raising the annual ISA allowance from £20,000 to £50,000 in order to encourage residents to save and invest.

- 3.8** This measure would be accompanied by a new Defence Bond, which would only be available in stocks and shares ISA accounts. Funds would be collected and explicitly ring-fenced for defence spending. This would give households a direct way to finance long-term defence investment.

Abolishing defined benefit pensions

- 3.9** The Government should consider phasing out defined benefit pensions. This would make future employer commitments more predictable, whilst transferring more investment and retirement-income risk to savers.
- 3.10** Diverting contributions from unfunded schemes into individual pension pots would leave existing pensions needing replacement financing. Any reduction in future commitments ought to be weighed against transitional cash costs, as explained in HM Treasury's Hutton report (Independent Public Service Pensions Commission 2011).

Restoring non-dom tax status

- 3.11** The Alternative Budget would offer qualifying residents preferential treatment of foreign income and gains while retaining ordinary taxation of UK incomes. Bringing back predictable rules could strengthen Britain's appeal to internationally mobile entrepreneurs and investors.
- 3.12** This would be modelled on the Italian system of applying a flat fee. The proposal for the British system would be a flat annual tax of £250,000 per individual.

Energy

- 3.13** Given that the majority of retail electricity costs are policy costs, the Government should consider reviewing any inefficient levies and subsidies. Any costs transferred from electricity bills to general taxation should be funded explicitly, with an eye on reducing total costs.
- 3.14** The OBR's March 2026 forecast put environmental-levy receipts at £15.9 billion in 2026 – 27 across the energy sector (OBR 2026).
- 3.15** Ending Energy Company Obligation charges and transferring 75% of domestic Renewables Obligation costs to taxation were estimated to remove around £150 from average annual household energy-bill costs (DESNZ 2026b).
- 3.16** A further review should assess each scheme's cost, benefits and contribution to electricity prices, while identifying savings beyond reforms already included in the fiscal baseline.

Social care

- 3.17** The Alternative Budget would consider replacing the current social care funding model with a compulsory social-care insurance system in England. This would come with income-based contributions for all resident taxpayers and replace the healthcare visa surcharge with a requirement to purchase comprehensive private insurance for healthcare, social care and income protection.
- 3.18** Councils would retain local assessment, safeguarding and commissioning, while the national fund paid for eligible care. This would spread demographic risks and reduce pressure on council budgets, which currently bear much of the public funding responsibility (Foster and Harker 2025).

Occupational licensing reform

- 3.19** The Government should review licensing requirements and remove restrictions on entry into professions that lack a proportionate public-safety justification.
- 3.20** Reducing unnecessary licensing requirements would give individuals greater freedom to pursue their chosen occupation and encourage competition, innovation and consumer choice.

Sunday trading liberalisation

- 3.21** The Government should remove all restrictions on large-store Sunday trading hours.
- 3.22** Allowing businesses to respond more freely to consumer demand would widen shopping choices and reduce regulatory differences between large stores, smaller shops and online retailers.

IR35 simplification

- 3.23** The Government should simplify IR35 and the off-payroll working rules, providing clearer criteria for determining employment status and reducing administrative burdens.
- 3.24** This would make it easier for businesses to hire independent contractors and allow self-employed workers to organise their activities more cheaply and with fewer disputes.

Retained EU law review

- 3.25** The Government should continue reviewing inherited EU regulation and amend or repeal requirements whose costs exceed the benefits.

Childcare deregulation

- 3.26** The Government should review childcare staffing ratios and qualification requirements, allowing greater flexibility where evidence demonstrates that children's safety and care quality can be maintained.
- 3.27** This could increase the supply of childcare provision without any additional costs. It would also bring British regulation in line with other developed countries where staffing ratios are much more flexible and the quality of childcare remains at a high standard.

Apprenticeship levy reform

- 3.28** The Government should reform the apprenticeship levy to give employers greater flexibility over eligible training expenditure.
- 3.29** Businesses should be able to direct funds towards the skills that are in demand, improving the value obtained from existing contributions.

Ending the ZEV mandate credit-trading scheme

- 3.30** The Government should abolish the Zero Emission Vehicle mandate and its credit-trading scheme, ending compulsory zero-emission vehicle sales targets for manufacturers.

- 3.31** This would give manufacturers greater freedom to respond to consumer demand and allow motorists to make informed choices over price, performance and practicality.

A

Financing

- A.1** The calculation for financing in the first fiscal year uses the March 2026 OBR forecast as a baseline. We count no additional revenue from stronger growth or debt-interest savings from lower gilt yields.
- A.2** Table A.1 provides a detailed account for FY 2027 – 28. In particular, it is estimated that the proposed reforms have a combined positive balance of about £12.4 billion.

Table A.1: First-year financing, 2027 – 28 (£ billion)

Measure	2027 – 28
VAT broadening	+75.0
Welfare ceiling after the tax-receipt allowance	+11.9
Total resources	+86.9
Abolition of Stamp Duty Land Tax	-19.2
Abolition of inheritance tax	-11.2
Abolition of customs tariffs, including the stated VAT loss	-5.9
Employer National Insurance cut	-20.8
Income tax reform	-12.4
<i>Subtotal of individually costed tax reductions</i>	<i>-69.5</i>
Provisional allowance for the remaining tax abolitions	-5.0
Total tax reductions including the allowance	-74.5
Provisional balance before further costs	+12.4

Source: Calculations from Tables 2.1 and 2.2.

B

Forecast

- B.1** The forecast is based on the March 2026 OBR forecast and assumptions about the economy. The Alternative Budget assumes, following the OBR forecast, a similar growth trajectory for real GDP, namely 1.1% in 2026, 1.6% in 2027 and 1.6% in 2028. The Alternative Budget is fully focused on altering taxes and spending in order to achieve a healthy budget surplus, put national debt on a healthy trajectory, and encourage economic growth.
- B.2** Table B.1 provides a summary of the Alternative Budget's forecast, in terms of receipts, expenditure and borrowing. The full set of assumptions concerning these calculations is illustrated in Table B.2 for completeness.

Table B.1: Summary of borrowing forecast (£ billion unless stated)

	2026 – 27	2027 – 28	2028 – 29	2029 – 30	2030 – 31
Current receipts	1,304.0	1,374.2	1,422.7	1,484.7	1,541.2
Total managed expenditure	1,419.0	1,458.7	1,486.0	1,509.0	1,548.0
Public sector net borrowing	115.5	84.1	63.3	24.6	5.7
Borrowing as a share of GDP (%)	3.7	2.6	1.9	0.7	0.2
Current budget balance	–33.9	7.8	26.0	62.4	83.6
Public sector net debt	3,053.0	3,178.6	3,283.9	3,353.1	3,386.8
Net debt as a share of GDP (%)	94.8	95.4	95.2	94.0	91.6
Net financial liabilities (% of GDP)	82.6	82.6	81.9	80.1	77.7

Source: IEA calculations. Assumptions from OBR (2026).

Table B.2: Economic assumptions before the Alternative Budget (annual change, per cent, unless stated)

	2026	2027	2028	2029	2030
Real GDP growth	1.1	1.6	1.6	1.5	1.5
Nominal GDP growth	3.3	3.6	3.5	3.4	3.5
Real GDP growth per person	0.8	1.3	1.3	1.2	1.1
Trend productivity growth	0.7	0.8	0.9	1.0	1.0
Household consumption growth	0.8	1.5	1.8	1.9	1.8
Business investment growth	−0.9	0.4	0.8	1.1	1.3
CPI inflation	2.3	2.0	2.0	2.0	2.0
Average earnings growth	3.4	2.4	2.1	2.2	2.4
Employment (millions)	34.2	34.5	34.8	35.0	35.2
Unemployment rate (%)	5.3	4.9	4.4	4.2	4.1
Output gap (% of potential GDP)	−0.9	−0.5	−0.2	−0.1	0.0

Source: OBR (2026).

Policy costings

- B.3** The proposed reductions in direct taxes are intended to be largely funded through a broadening of VAT. The changes are forecast to bring £75 billion of additional revenues, which would largely cover the proposed cuts of £74.5 billion. This would reflect a shift of the tax burden away from income and transactions and towards consumption.
- B.4** The main driver of fiscal consolidation is the welfare spending ceiling. The annual savings in welfare spending rise from about £12 billion in FY 2027 – 28 to £56.7 billion in FY 2030 – 31.
- B.5** The Alternative Budget's proposed measures reduce annual borrowing by £12.4 billion initially, with a predicted cumulative impact of £127.2 billion over the three fiscal years covered by this forecast.
- B.6** Table B.3 covers a detailed year-by-year breakdown of the proposed tax and spending measures.

Table B.3: Policy scorecard (£ billion)

Measure	2026 – 27	2027 – 28	2028 – 29	2029 – 30	2030 – 31
VAT broadening	0.0	75.0	78.0	81.4	84.9
Gross welfare saving	0.0	13.3	27.0	46.0	63.0
Welfare tax-receipt allowance	0.0	-1.3	-2.7	-4.6	-6.3
Abolish Stamp Duty Land Tax	0.0	-19.2	-21.3	-23.0	-24.6
Abolish inheritance tax	0.0	-11.2	-12.8	-13.7	-14.7
Abolish customs tariffs	0.0	-5.4	-5.6	-6.3	-6.5
VAT loss from tariff repeal	0.0	-0.5	-0.6	-0.6	-0.6
Employer National Insurance cut	0.0	-20.8	-21.1	-21.3	-21.6
Income tax reform	0.0	-12.4	-13.3	-14.2	-15.3
Remaining tax abolitions allowance	0.0	-5.0	-5.0	-5.0	-5.0
Direct improvement in borrowing	0.0	12.4	22.7	38.8	53.3

Positive figures improve the public finances; negative figures are costs to the Exchequer.

Reconciliation

- B.7** Receipts are forecast to rise to £1,541.2 billion by FY 2030 – 31, approximately £9.8 billion below the OBR forecast. Broadening VAT is key to allowing various tax reforms and proposed spending cuts in the Alternative Budget.
- B.8** Expenditure will continue to grow, but more slowly than in the OBR forecast. Spending is predicted to reach £1,548.0 billion in FY 2030 – 31, with the welfare spending ceiling accounting for a £63 billion reduction against the OBR forecast.
- B.9** The Alternative Budget returns to surplus in FY 2027 – 28. Borrowing nevertheless remains positive to preserve cash flows; however, annual borrowing is expected to fall to £5.7 billion, a record low.
- B.10** Debt servicing remains a substantial spending element. In FY 2030 – 31, the net debt-interest payment of £112.9 billion will be larger than the £107.2 billion primary surplus, demonstrating that even a scenario in which national debt is aggressively brought back on track comes with long-lasting debt-servicing commitments.
- B.11** Lower borrowing would slow down the accumulation of debt. Net debt is set to reach £3,386.8 billion in FY 2030 – 31, £127.2 billion below the OBR forecast.
- B.12** Table B.4 shows that the broadening of VAT largely offsets the revenue loss from tax reform and the reduced welfare payments resulting from the maintenance of benefits at current rates.

Table B.4: Reconciliation of current receipts (£ billion)

	2026 – 27	2027 – 28	2028 – 29	2029 – 30	2030 – 31
OBR baseline receipts	1,304.0	1,375.0	1,427.0	1,492.0	1,551.0
VAT broadening	0.0	75.0	78.0	81.4	84.9
Income tax reform	0.0	–12.4	–13.3	–14.2	–15.3
Other individually costed tax repeals	0.0	–35.8	–39.7	–43.0	–45.8
Employer National Insurance cut	0.0	–20.8	–21.1	–21.3	–21.6
VAT loss from tariff repeal	0.0	–0.5	–0.6	–0.6	–0.6
Remaining tax abolitions allowance	0.0	–5.0	–5.0	–5.0	–5.0
Welfare tax-receipt allowance	0.0	–1.3	–2.7	–4.6	–6.3
Alternative Budget receipts	1,304.0	1,374.2	1,422.7	1,484.7	1,541.2

Source: Baseline from OBR (2026), Table A.5.

B.13 Looking at expenditure in Table B.5, the restraint in welfare spending accounts for almost all of the reduction in expenditure in the Alternative Budget against the OBR baseline. Total spending rises from £1,419.0 billion to £1,548.0 billion in 2030 – 31 but is £63.0 billion below the OBR forecast for that year. Spending on investment and interest on debt follows the path of expenditure in the OBR forecast.

Table B.5: Reconciliation of expenditure (£ billion)

	2026 – 27	2027 – 28	2028 – 29	2029 – 30	2030 – 31
OBR baseline total expenditure	1,419.0	1,472.0	1,513.0	1,555.0	1,611.0
Gross welfare saving	0.0	–13.3	–27.0	–46.0	–63.0
Alternative Budget total expenditure	1,419.0	1,458.7	1,486.0	1,509.0	1,548.0
<i>Memo items:</i>					
Current expenditure	1,260.0	1,285.7	1,313.0	1,335.0	1,368.0
Gross investment	159.0	172.7	173.3	173.9	179.5
Net investment	81.5	91.9	89.3	87.0	89.3
Welfare spending ceiling	352.8	349.8	346.8	343.9	343.9
Net debt interest	89.0	94.9	103.7	111.3	112.9

Source: OBR (2026).

B.14 Table B.6 shows the effect of the Alternative Budget measures on borrowing by deducting the policy savings from the OBR baseline borrowing. Annual borrowing falls steadily to £84.1 billion in 2027 – 28 (three years earlier than in the OBR baseline) and to £5.7 billion in 2030 – 31, resulting in a cumulative reduction in borrowing of £127.2 billion over the three-year period.

Table B.6: Borrowing reconciliation (£ billion)

	2026 – 27	2027 – 28	2028 – 29	2029 – 30	2030 – 31
OBR baseline borrowing	115.5	96.5	86.0	63.4	59.0
Less direct policy improvement	0.0	12.4	22.7	38.8	53.3
Alternative Budget borrowing	115.5	84.1	63.3	24.6	5.7
Current budget balance	–33.9	7.8	26.0	62.4	83.6
Primary balance	–26.5	10.8	40.4	86.7	107.2
Cumulative borrowing reduction	0.0	12.4	35.1	73.9	127.2

Positive balances are surpluses. The primary balance excludes net debt interest.

Source: OBR (2026).

B.15 Tables B.4 to B.6 help explain why borrowing continues after the current budget returns to surplus. As Table B.5 shows, in 2030 – 31 the net public investment of £89.3 billion exceeds the current surplus of £83.6 billion, and hence £5.7 billion must be borrowed.

B.16 Table B.7 reconciles the opening debt with borrowing and a number of small stock-flow adjustments (which capture the effect of a wide range of financial and other transactions) to arrive at closing debt, as measured in cash terms. Despite the reduction in annual borrowing, debt continues to rise to £3,386.8 billion in 2030 – 31.

Table B.7: Net debt reconciliation (£ billion)

	2026 – 27	2027 – 28	2028 – 29	2029 – 30	2030 – 31
Opening net debt	2,922.0	3,053.0	3,178.6	3,283.9	3,353.1
Public sector net borrowing	115.5	84.1	63.3	24.6	5.7
Baseline stock-flow adjustment	15.5	41.5	42.0	44.6	28.0
Closing net debt	3,053.0	3,178.6	3,283.9	3,353.1	3,386.8

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