

Reeves eyes up to £40bn in tax rises and spending cuts in Budget



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[Rachel Reeves](#) is looking to raise up to £40 billion in tax hikes and spending cuts in this month's [Budget](#) as the [Government](#) seeks to avoid a return to austerity, it is understood.

The Chancellor told ministers in a Cabinet meeting on Tuesday that plans to fill what Labour calls a “£22 billion black hole” in the UK’s finances will be enough only to “keep public services standing still”.

The Treasury is said to have identified a far larger £40 billion funding gap which Ms Reeves will seek to plug to protect key departments from real-terms cuts and put the economy on a firmer footing.



Prime Minister Sir Keir Starmer and Rachel Reeves have promised there will be no return to austerity (PA)

PA Wire

Experts have argued that ministers need to find £20 billion to avoid a squeeze on so-called “unprotected” departments pencilled in by their Tory predecessors, and billions more to prevent a sharp fall in investment spending.

Some of that could come from changing the measure the Government uses to calculate debt, but economists have suggested that some tax rises are all but inevitable to prevent cuts to day-to-day spending.

Institute for Fiscal Studies (IFS) chief Paul Johnson said that finding £40 billion from tax hikes alone would be “extraordinary” and suggested the Government would eventually need to target income tax if it went down this route.

“If we get tax rises on that scale, that really will be extraordinary – I mean, unprecedented,” he told BBC Radio 4’s Today programme.

“Forty billion pounds is a big number, you can get there relatively easily actually in terms of the scale of additional spending that will be required down the line.

“Some of that can be covered by slight changes in the fiscal rules, some of that will be covered by some of the tax rises the party is already intending.”

But he added that a “significant” amount would still be left unaccounted for even after these measures, telling the show: “If they’re looking for £20 or £30 billion of tax rises, in the end, they will have no choice but to do something with income tax.”

The Government has faced mounting questions over whether its manifesto promise not to raise national insurance for “working people” extends to employers’ contributions as well as those made by employees.

Ministers have repeatedly refused to rule out an increase in the employer rate, which businesses have warned would amount to a “tax on jobs.”

Speaking to broadcasters on Wednesday, Chief Secretary to the Treasury Darren Jones said the Budget would be “the start of the period of change” promised by Labour but warned of “hard” times ahead.

Asked whether he could rule out real-terms cuts to crucial public services, he said: “We’re setting budgets for public services at the end of October for one financial year, 25/26.

“We will not be returning to austerity and we will present an honest set of spending plans that deal with the £22 billion black hole that we inherited from the previous Conservative government.

“That will be hard, but it’s the right thing to do and it’s the start of the period of change under this Labour Government

that will see better public services over the years ahead.”

Downing Street later denied that Sir [Keir Starmer](#) had given the public the wrong impression about the scale of tax rises that would come under Labour.

Asked whether the [Prime Minister](#) had misled voters, his press secretary said: “No. So we stand by our commitments in the manifesto, which was fully funded.

“We were honest with the British public, both during the election and since, about the scale of the challenge that we would receive.

“Then, of course, one of the first things the Chancellor did when we came in was do an audit of the books and found a £22 billion black hole that the previous government lied about and covered up.

“So that’s why we have continued to be honest with the British people that there are going to be difficult decisions in this Budget, and that’s because of the mess that the Conservatives left the economy in.”

The Tories have accused Labour of sowing “further uncertainty and chaos for businesses by opening the door to a new jobs tax” and said that increasing employer national insurance contributions would break the party’s manifesto pledge.

“In 2021, the Chancellor said increasing employer national insurance was a tax on ‘workers’. That’s why even in her own words it breaks Labour’s manifesto promise not to increase tax on working people,” shadow Treasury minister Laura Trott said.

“Rachel Reeves herself previously called the move anti-business and we agree, it is a tax on work that will deter investment, employment and growth, and the OBR says it will lower wages.”

It comes as new figures released on Wednesday showed inflation

dropped below the Bank of England target rate last month for the first time since April 2021.

The Office for National Statistics (ONS) said Consumer Prices Index (CPI) inflation fell to 1.7% in September, from 2.2% in August.

Mr Johnson said there was “good and bad news” for the Government in the latest figures.

While the cost of the benefits bill will be lower than it would have been had inflation climbed, less revenue will be raised through fiscal drag, whereby frozen tax thresholds pull people into paying a higher rate.

A Treasury spokesperson said: “We do not comment on speculation around tax changes outside of fiscal events.”