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# The Labour manifesto is a lifetime tax bombshell for ordinary families

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At times, it was painful to watch. But Andrew Neil's TV interrogation of Labour leader Jeremy Corbyn served a useful economic purpose: it put to bed, entirely and convincingly, the Labour lie that only the rich and business would feel the heat of the party's planned tax hikes.

With characteristic precision, Neil showed how families currently benefiting from the income tax marriage allowance or receiving puny dividend income could pay hundreds of pounds more under Labour each year. Unsurprisingly, if you abolish or make allowances less generous, and raise dividend income tax rates to those of ordinary income, people outside the top 5pc of earners who use such allowances or receive dividends pay more in tax.

This fact seems to surprise nobody except for the Labour leaders, who persist in claiming that only those earning over £80k would pay more income tax under them – in other words, those affected by their direct marginal income tax rate hikes (to 45pc over £80k and 50pc over £125k).

In truth though, the dishonesty at the heart of Labour claims that "someone else will pay" runs far deeper than Neil had time to dig. Economists distinguish between who pays taxes legally, and where the actual burden really ends up. A huge literature, for example, suggests that between 30pc and 70pc of the real burden of corporation tax ultimately falls on workers in the form of lower wages.

Labour, of course, would jack up the main rate from 19pc to 26pc. Their planned broadening of stamp duty – in effect creating a financial transactions tax – will, in part, be borne by pensions funds and workers. In other words, ordinary people will be made worse off by their business or transactions taxes as well, even those notionally paid by companies or the wealthy.

Things could be far worse in reality. Clifford Chance tax lawyer Dan Neidle says there could be a £20bn revenue hole in the party's plans; and some of their economic assumptions for the revenue obtained from other taxes look heroic. Any shortfall, of course, will ultimately need to be made up with tax hikes on ordinary families to meet their £83bn-plus of day-to-day spending pledges. Given the high likelihood of subsidies for the newly nationalised rail, energy, postal and water industries, the tax burden on workers could, for many reasons, be much higher than the manifesto suggests.

Even all this, though, is static analysis. What nobody has really pointed out yet are the likely impacts of Labour's manifesto on families' tax burdens over longer periods.

First off, even Labour's hikes in marginal income tax rates for "the rich" will affect many more people than they suggest. The Institute for Fiscal Studies has been told that Labour would keep the £80k starting threshold for their 45pc rate fixed in cash terms (in other words, it will not be indexed to prices). As incomes rise over time, many more individuals will be dragged into this band, with the number likely rising by 24pc in the next parliament alone.

Of course, “the rich” aren’t a fixed block of people either. Many people not earning over £80k now will do at some stage in their life. On quite conservative assumptions, anywhere above 15pc or 20pc of people might pass that threshold at some stage in their careers. Labour’s plans then will raise lots of families’ lifetime income tax rates, even if they appear unaffected today.

More importantly, a lot of Labour’s spending pledges are what we might call “demographically sensitive”. That is, they will likely become more expensive as the population ages. Despite the fiscal headwinds the country is sailing into, with health, long-term care, state pension, and pensioner benefit spending already set to explode from 14pc of GDP to 23pc of GDP over five decades, Labour’s priorities would make this long-term ageing time bomb much worse.

It’s not just the promise to freeze the state pension age at 66 – though this alone will add £24bn per year to direct public spending by the 2050s, increasing the jump in spending expected by over 40pc. Nor is it only the new commitment to provide free personal social care to those over 65, while capping their lifetime “hotel” costs at £100,000 – promises that will spiral in cost, particularly if the age eligibility threshold is left unchanged.

No, Labour’s own manifesto details how the party would also increase the NHS spending baseline, expand free prescriptions, introduce free hospital parking, expand pension credit eligibility, increase state pension generosity for Britons overseas and put taxpayers (rather than the BBC) on the hook for “free” TV licences for over-75s. All will likely grow in expense with an ageing population.

Inevitably, that means further hikes in taxes on ordinary working age people. Labour’s own fiscal framework commits to not financing day-to-day government spending via borrowing over time. So as these commitments raise ordinary spending, taxes would have to be jacked up to cover age-related health, pension and welfare policies. Such additional revenue, on top of existing plans, could not be feasibly raised from rich taxpayers alone. Ordinary people would face significant hikes in the taxes they pay.

Again, this is just pure public finance accounting. It doesn’t require any judgment about whether Labour’s broader economic policies would hurt prosperity and so the tax base, though that is clearly a risk too. Some might say tax rises on this scale simply couldn’t happen.

That they would be politically unfeasible. Yet the history of government entitlement programs shows they are extraordinarily difficult to abolish once introduced. It’s not a credible defence of the manifesto to say “don’t worry – the long-term promises are incredible” either.

Hard truths about what will happen to your lifetime tax bill sit there, on the pages of Labour’s manifesto in plain sight. The party’s plans for income tax, the economic burdens of their business taxes and the ever-expanding expense of many of their spending pledges would see your family handing over more and more of your hard-earned income to HMRC over time. Don’t say you weren’t warned.

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