The narrow path to NICs cuts

Analysing the tax and spend package of the 2024 Conservative Manifesto

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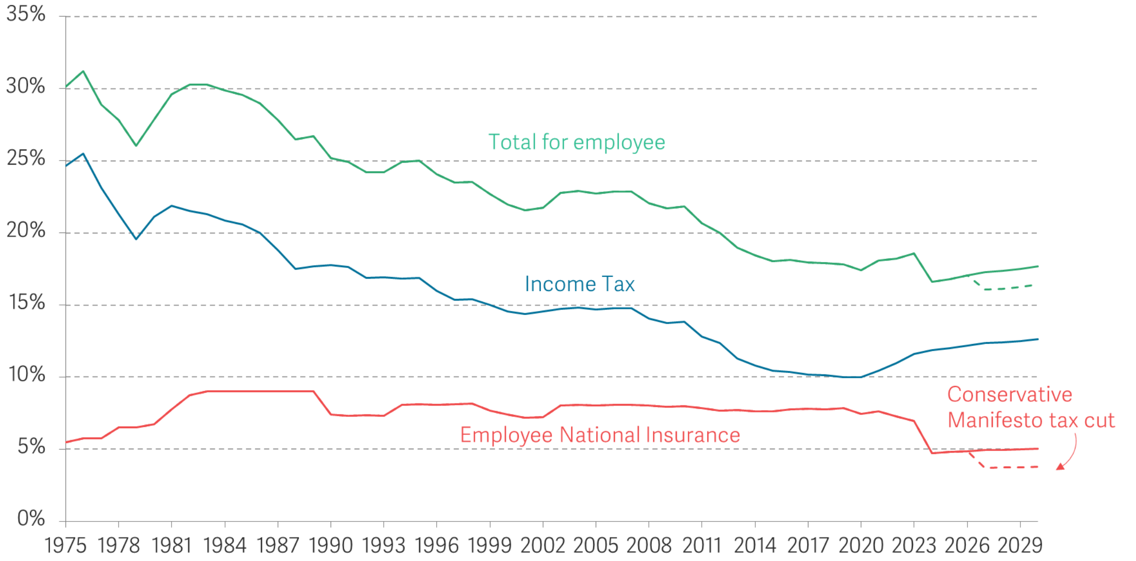
The launch of the Conservative manifesto is a big moment in this election campaign. The strategy here was clear: treble down on National Insurance (NI) rate cuts. The continued focus on NI is welcome, at least compared to the alternatives, and delivers significant cuts in tax for some, with the proposed 2p reduction delivering a £750 cut for someone on £50,000. But this approach is a stark reversal from Autumn 2022, when then Chancellor Sunak proposed raising NI to 13.25 per cent to fund social care. However, given the weak state of the public finances, these latest tax cuts rest on heroic efforts to reduce tax avoidance, and £33 billion of combined cuts to disability benefits and public services that will be extremely challenging to deliver. This raises big questions about whether such an approach passes the plausibility test, or answers the big economic challenge Britain faces on growth. And the risk looming over this manifesto is that it would only take a small amount of bad economic news for these plans to fall foul of the fiscal rules, which would leave a future Conservative government facing an unpalatable choice of cutting spending further, raising taxes or allowing public debt to rise.

The centrepiece of the Conservative manifesto was £17 billion of tax cuts

The manifesto unveiled plans for a further 2p cut in NI, costing £10.3 billion per year by the end of the next parliament, along with smaller tax cuts for pensioners, the self-employed and first-time buyers. Cutting NI rates reduces the gap between the taxation of income for those above the retirement age, and those below, as well that between different forms of income (for example, between salaries and rental income). This reduction in NI is substantial for many, delivering a tax cut of up to £750 for someone earning £50,000. Another 2p cut, on top of those already announced in November 2023 and March 2024, would take the NI rate to 6 per cent, less than half the rate of 13.25 per cent that was in place as recently as September 2022 (before Liz Truss cancelled the Health and Social Levy). As shown in Figure 1, this further cut would mean employees having the lowest effective personal tax rate since at the least 1975.

Figure 1 **Effective tax rates would hit historic lows for employees under the proposed policies**

Effective tax rates for an employee on the median salary: UK

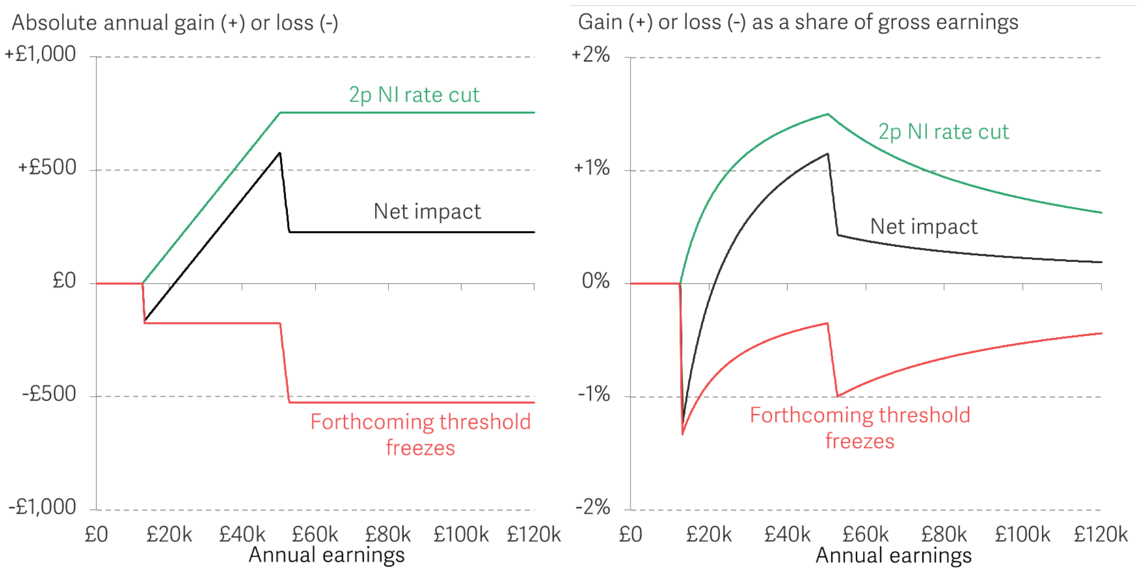


Notes: For consistency, tax rates are for unmarried employees under 65 with non-volatile earnings, and ignore mortgage interest and pension tax relief. Scottish tax differences are not included. Based on financial years. 2022 and 2023 use the tax parameters that applied in October of those years. Employer NI figures only calculated from 1999 onwards, and non-structural employer NI tax reliefs not included.
Source: RF analysis using median earnings figures from ASHE/NESPD and tax history from HMRC and IFS. Earnings projected using OBR, Economic and Fiscal Outlook, March 2024; Conservative Party, Manifesto 2024.

But this latest cut is coming alongside already announced freezes to tax thresholds over the next parliament, and these policies together mean that a typical employee earning £30,000 would see their personal tax bill fall by only £170 a year by 2027-28, as shown in Figure 2.

Figure 2 **Alongside tax threshold freezes, this policy means a median employee would see their personal tax bill fall by £170**

Impact on employees of Income Tax and employee National Insurance changes announced in the Conservative manifesto or taking effect from 2025-26 to 2027-28: UK excluding Scotland



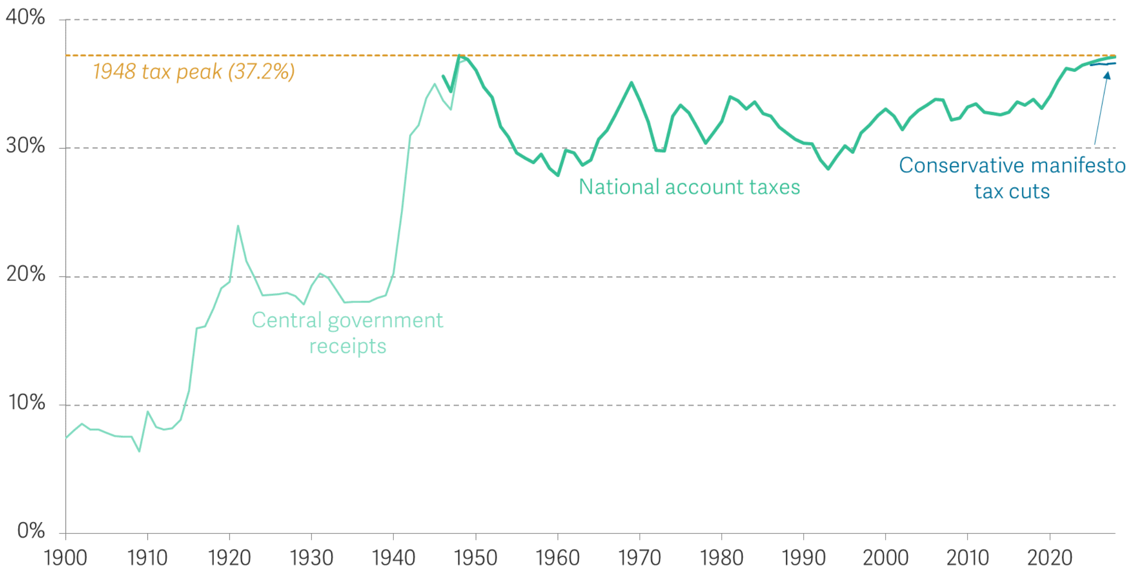
Notes: Analysis does not include the impact of employer National Insurance policies or Universal Credit means-testing. Forthcoming threshold freezes refers to the freezes to Income Tax and National Insurance thresholds in 2025-26, 2026-27 and 2027-28.
Source: RF analysis.

The manifesto also included a surprise proposal to abolish the main rate of self-employed NI by the end of the next parliament (currently 6 per cent). This change deepens the extent to which the tax system incentivises self-employment, further distorting decisions in the labour market.

The proposed cuts to personal tax bills are not enough to stop tax rising as a proportion of GDP. Measures in the Conservative manifesto would still leave overall taxes going up by a modest £5.7 billion a year by the end of the next parliament, a rise of £190 per household. As Figure 3 shows, this would take the tax to GDP ratio to 36.7 per cent – its highest level since 1948.

Figure 3 **Even with these proposed tax cuts, tax as a share of GDP would still hit historic highs**

Taxes as a proportion of GDP: UK



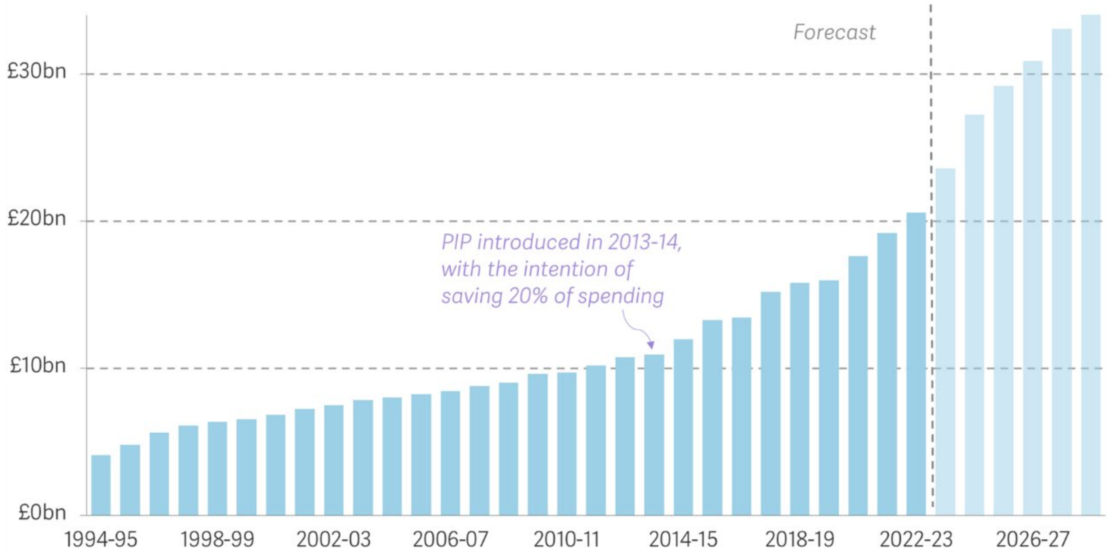
Notes: Includes OBR projections. Final data point is 2028-29.
Source: OBR, Economic and Fiscal Outlook, March 2024; OBR, Historical public finances database, Conservative Party, Manifesto 2024.

These tax cuts would be funded, in part, by reductions in welfare spending that look extremely challenging to deliver

The Conservative manifesto suggested that a future government could find £12 billion of welfare cuts, and pointed in particular to the rising cost of disability benefits. Indeed, as Figure 4 shows, spending on working-age disability benefits is forecast to continue rising rapidly over the next five years.

Figure 4 **Spending on disability benefits is forecast to continue growing in real terms**

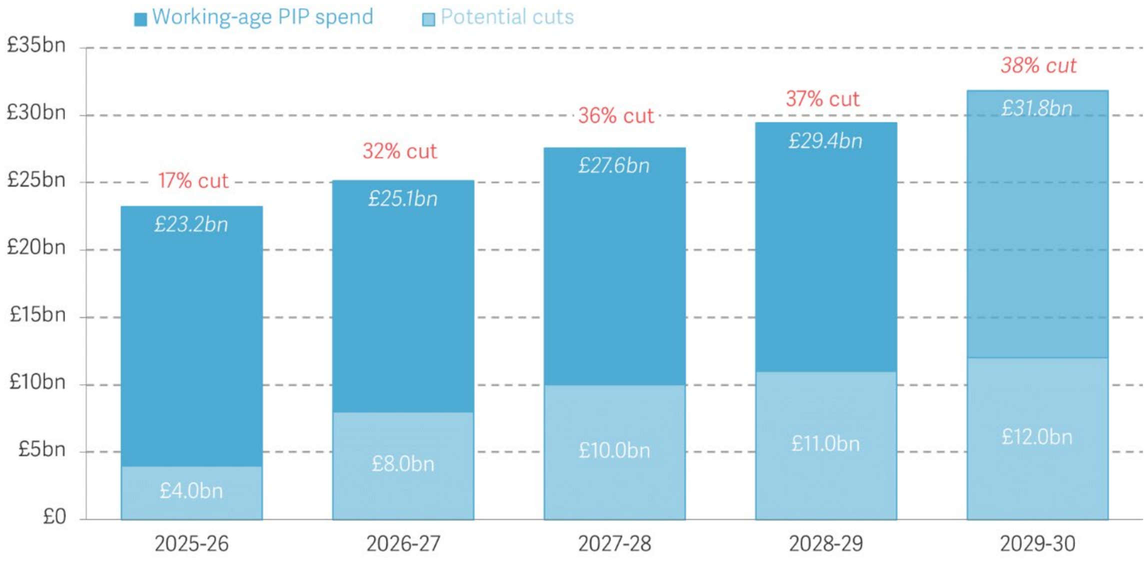
Real-terms spending on working-age disability benefits, in 2028-29 prices: Great Britain



Notes: Disability benefits = Disability Living Allowance, Personal Independence Payment and Scottish Adult Disability Payment. Incapacity benefits = Employment Support Allowance and Universal Credit Health. Deflated using the GDP deflator to 2028-29 prices.
Source: RF analysis of DWP, Spring Statement 2024 Expenditure and Caseload forecasts; Scottish Fiscal Commission, Economic & Fiscal Forecasts, various.

There was, however, little detail on how cuts on this scale can be delivered. The Conservatives have indicated that the focus would be on health-related benefits like Personal Independence Payments (PIP) and the Limited Capability for Work-Related Activity element of Universal Credit (UC). Reducing spending on PIP by £12 billion would imply a cut of 40 per cent, as shown by the pale blue bars in Figure 5. This would be extremely challenging to deliver, not least as it would likely involve cuts to the entitlements of existing claimants. If the savings were instead made entirely by reducing the PIP caseload, it would mean 1.6 million fewer people receiving the benefit than are currently forecast by the end of the next parliament.

Figure 5 **Reducing spending on PIP by £12bn would imply a challenging 40% cut**
Nominal spending on PIP for working-age adults, and potential cuts announced in the Conservative manifesto: Great Britain

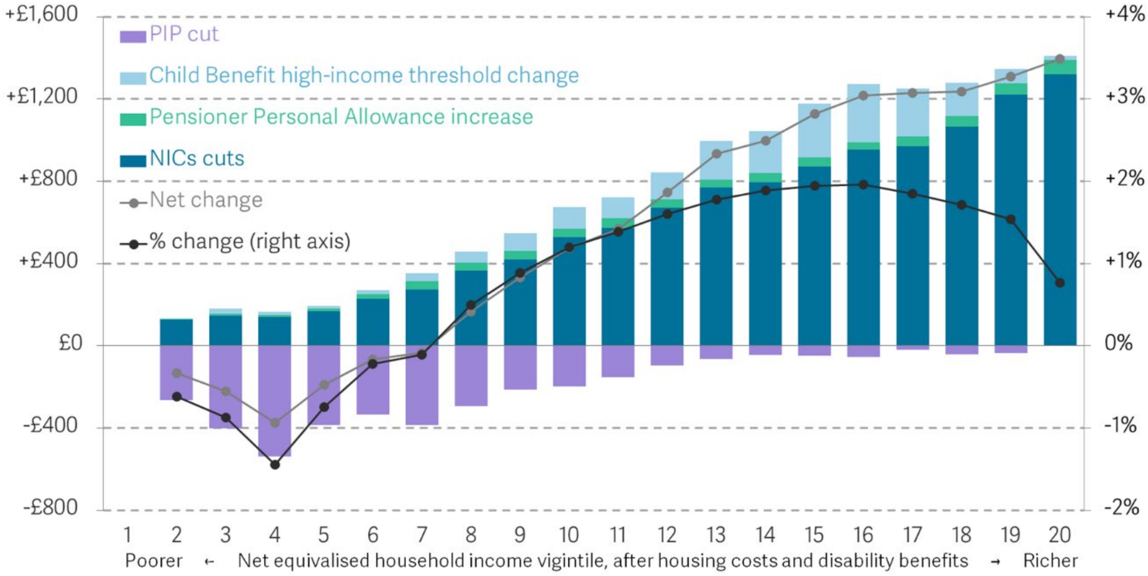


Notes: Disability benefits = Disability Living Allowance, Personal Independence Payment and Scottish Adult Disability Payment. Incapacity benefits = Employment Support Allowance and Universal Credit Health. Deflated using the GDP deflator to 2028-29 prices.
Source: RF analysis of DWP, Spring Statement 2024 Expenditure and Caseload forecasts; Scottish Fiscal Commission, Economic & Fiscal Forecasts, various.

Recent history gives us reason to doubt that savings on this scale can be delivered. First, the introduction of PIP (under the coalition government) saved £0.1bn by the end of the Parliament in which it was introduced, just 7 per cent of the £1.4bn that was originally expected to be saved. Second, the Conservative Government announced £12 billion of unspecified welfare cuts in its 2015 manifesto, with details following in July 2015, followed by a U-turn on important aspects of cuts to tax credits by October 2015 – six months before any cuts were actually delivered. Ultimately, only £9 billion of these cuts were delivered by 2020-21 (see Table 2.6 in the 2019 OBR Welfare Trends report), and some of those were subsequently reversed.

Figure 6, though, gives the Conservative Party the benefit of the doubt and shows how these cuts to welfare as well as the tax cuts might affect household incomes. By the end of the next parliament, the richest fifth of households would *gain* £1,300, while the poorest fifth would *lose* £250 under the combined tax cuts and welfare savings proposed in the manifesto.

Figure 6 **The poorest households would lose £250 a year under these proposals**
Impact of tax and benefit changes announced in the Conservative manifesto, by income vigintile, UK: 2029-30



Notes: The UK tax system has been applied to Scotland in this analysis. NICs cuts refers to cutting employee NICs by 2p and abolishing NICs for self-employed workers. PIP cut refers to a £12 billion cut applied to recipients with mental health related disabilities.
Source: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model; DWP, Family Resources Survey.

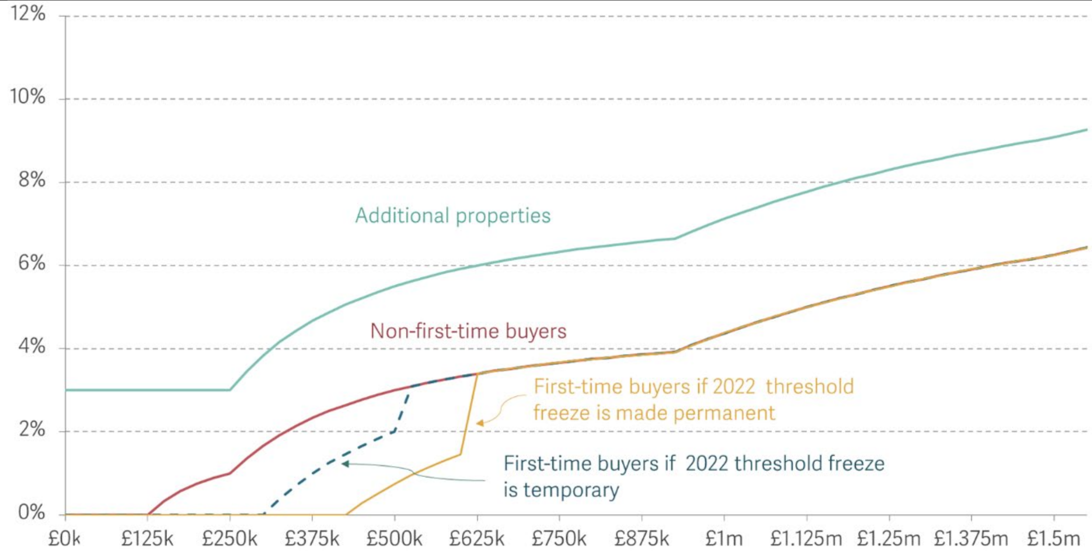
Help for first-time home buyers was a central focus of the manifesto

As well as these flagship tax and benefit cuts, the Conservative manifesto singled out housing as a priority issue, with policies designed to boost home ownership. These included bringing back Help-to-Buy equity loans to support first-time buyers and making the (currently temporary) £425,000 stamp-duty threshold for first-time buyers a permanent feature of the housing market.

The Help-to-Buy equity loan scheme has a mixed record. Previous schemes in place from 2013 to 2023 were used in 387,000 home purchases, but also plausibly put upward pressure on house prices (given, in part, that these schemes were for new builds only). As the Government's own evaluation suggests, many households who used the previous schemes were on higher-incomes and likely could have bought without government help. And making the £425,000 Stamp Duty threshold permanent for first-time buyers will certainly cement their tax advantage compared to those buying a subsequent, or additional home, as shown in Figure 7. However it's worth noting that the average first-time buyer house price in England is estimated to be around £262,000 in 2025, meaning many would not be Stamp Duty-liable even if the threshold were to be reduced to £300,000 as planned.

Figure 7 **Conservative plans to make the £425,000 Stamp Duty threshold permanent for first-time buyers would cement their tax advantage**

Average Stamp Duty tax rate by property purchase price: England and Northern Ireland, April 2025



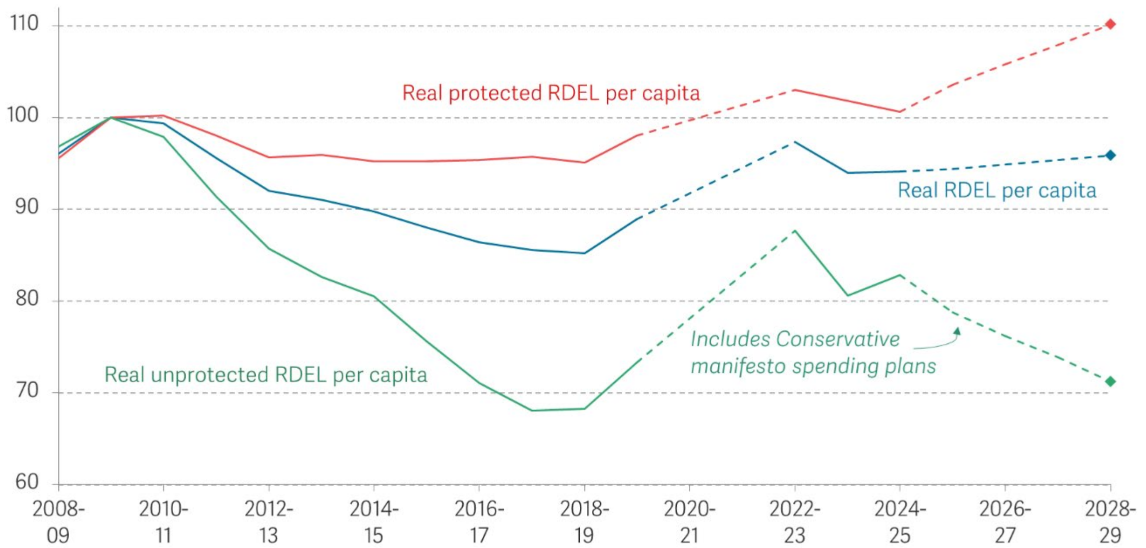
Notes: Permanent threshold freeze line includes house price cap staying at £625,000. Temporary threshold freeze has cap returning to £500,000.
Source: Analysis of HMRC, Stamp Duty Land Tax.

There are questions as to whether these proposals pass the plausibility test

There are reasons for doubting whether the plans set out in the Conservative manifesto passes the plausibility test, even beyond doubting the achievability of proposed cuts to welfare spending. To be able to say that their changes are fully funded, the Conservative Party is relying on an unspecified £6 billion clampdown on tax avoidance, some of which would need to be delivered by HMRC starting just nine months after the election. And the proposals are conditional on making £21 billion of cuts to unprotected departments, as shown by the green line in Figure 8, which include Justice, the Home Office and local government, all of which have already been struggling to deliver viable public services. These cuts look very difficult to deliver.

Figure 8 **Promised tax cuts are based on £21 of cuts to unprotected departments**

Indices of real (GDP deflator adjusted) per-person resource departmental expenditure limits (2009-10=100), all departments, 'unprotected' and 'protected' departments



Notes: Deflated using the OBR forecast for the GDP deflator to 2024-25 cash terms. Protected budgets include NHS England, education, defence and foreign, commonwealth and development office. Figures include the impact of the Barnett formula and Conservative manifesto plans including for defence spending to reach 2.5% of GDP by 2030.
Source: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents, various; Conservatives, The Conservative and Unionist Party Manifesto 2024.

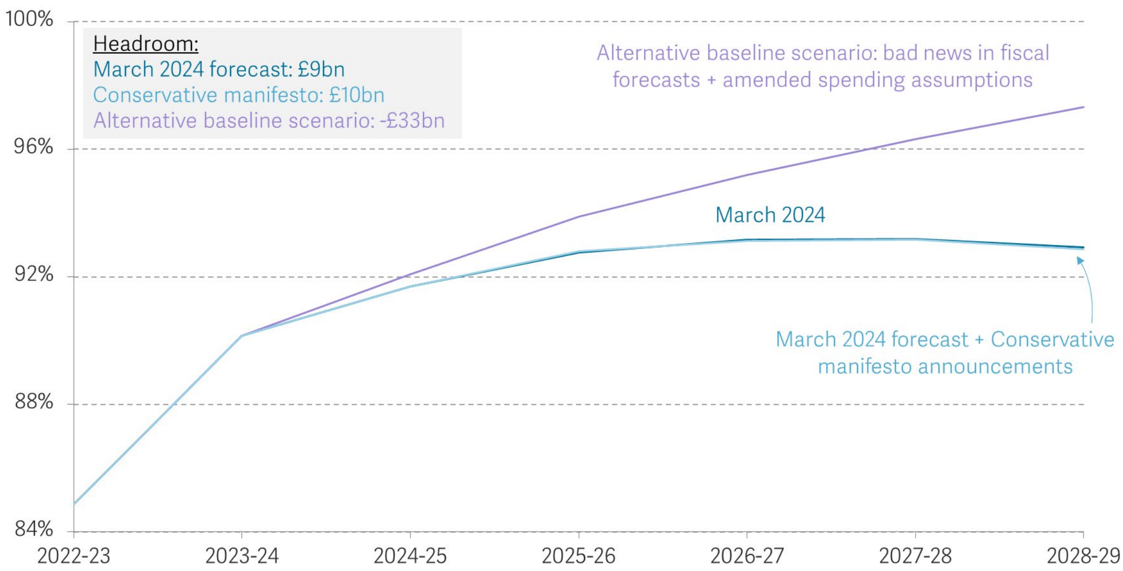
One small dose of bad economic news could render these NICs cuts a fiscal impossibility

At face value, the costings set out in the manifesto would leave a future Conservative government meeting its commitment to get debt falling with £10 billion of headroom (see the dark blue line in Figure 8).

But uncertainty surrounding the fiscal outlook is significant, with only a relatively small change required to mean that debt is on an upward path. As discussed in our previous work, a modest deterioration in the forecast for productivity growth, would blow a £17 billion hole in the forecast for public finances. If these forecasts were to change for the worse, a future Conservative government would likely need to choose between delivering challenging spending cuts to already creaking public services, cancelling promised tax cuts, breaking their campaign commitments not to raise taxes any further than they have already committed to, and choosing less restrictive fiscal rules.

Figure 9 **These manifesto pledges meet existing fiscal rules to have debt falling, under existing forecasts**

Public sector net debt, excluding the Bank of England, as a proportion of GDP, OBR forecast and scenarios: UK



Source: RF analysis of OBR, Economic and Fiscal Outlook, March 2024; OBR, Economic and Fiscal Outlook, November 2023; Bank of England, Yield curves.
Notes: Market rates to update debt interest costs were taken as of 17 May 2024. For details of the alternative baseline scenario, see C McCurdy, C Pacitti & J Smith, Debt dramas: Putting the public finances in context ahead of general election 2024, Resolution Foundation, June 2024.

Overall, then, the Conservative manifesto was clear in its strategy to cut taxes further on working people. But these cuts follow on from already announced tax rises, and rely on heroic efforts to reduce tax avoidance and deliver major cuts to public spending. The issue looming over this manifesto is that only a small dose of bad economic news would be required for a future Conservative government to fall foul of the fiscal rules, and need to return to the drawing board.