Unite Investigates: End the Stealth Tax on Work

September 2026

1 Unfreeze the tax thresholds: put money back in people's pockets

The Cost of Living Crisis is a double whammy of rising prices and falling household incomes. One immediate thing the new government can do: put money back in people's pockets by ending the "stealth tax" of frozen thresholds.

The tax thresholds used to go up with inflation. So as your pay ticked up year on year, so did the thresholds. The share of your income going to HMRC remained the same.

No longer. From 2022, successive Governments have frozen the "Personal Allowance" threshold at £12,570 and the 40% "higher rate" threshold at £50,270.

As inflation has soared, ever more people pay increased tax. Without the freeze the Personal Allowance threshold would be £3,500 higher, meaning workers could enjoy that income tax free.

At the same time, ever more ordinary workers – nurses, teachers, tanker drivers – are being dragged into the 40%, band.

Unfreezing the tax thresholds is one of the strongest demands of Unite members across all sectors.

It is a simple, cost-effective way to show workers and pensioners the new Government is on their side.

1.1 The status quo: "fiscal drag" makes workers and pensioners bear the brunt of a failed economic model

Workers have been made to pay for crisis after crisis. After 30 years of deindustrialisation, the banks crashed the economy in 2008.

Government debt doubled as a result, and workers paid through a decade of austerity and real wage stagnation.

Now, during a cost of living crisis, everyday people have been hit with stealth taxes that have taken an ever-bigger chunk of their income year on year.

Instead of investing for growth and well-paid jobs, successive Governments have picked the pocket of workers.

The threshold freezes are hitting workers and everyday people across the economy:

- **Higher tax bills for all workers:** The freeze will have cost the average worker in England, Wales and Northern Ireland £5,800 by 2030/31.[1]
- **Pensioners dragged into the tax net:** Pensioners receiving the full state pension will be dragged over the 20% threshold from 2027/8 as the pension increases with inflation. A million may pay more as a result.[2]
- **A deepening benefits trap:** 690,000 people claiming Universal Credit will have to pay tax as a result of the threshold freeze being extended to 2031. Low income workers who are on UC and pay income tax and NI may only keep 32p in every £1 they earn.[3]
- **One in four paying 40%:** A worker making £46,000 – not far above the average wage - will be pushed into the 40% higher tax bracket by the end of the decade. Just 1 in 10 were paying 40% in 2019. Engineers, teachers, nurses: workers it was never intended to hit.[4]

1.2 Unfreezing the tax thresholds is a step towards changing a rigged system

Opinion polling consistently shows that the public support increased taxes “on businesses and wealth” and oppose “taxes on working people and pensions”.[5]

Increasing the thresholds would break a cycle of successive Governments hammering everyday people in a failed attempt to balance the books, instead of creating a growing, high wage economy.

2 What can we do and how does this benefit everyday workers?

2.1 Option 1: Unfreeze the tax thresholds now: let them rise with inflation in April 2027

Unfreeze the 20% and 40% tax thresholds in your first Budget and let them rise again with inflation, from April 2027 at the latest.

- The Personal Allowance would rise to £13,000 in April 2027.
- The 40% threshold would rise to £52,000.

These figures are calculated using the 3.5% inflation rate currently predicted for September 2026. Thresholds are tied to the inflation rate from September the previous year.

2.1.1 Nurses and teachers taken out of the 40% rate, one million pensioners kept out of tax

Low income workers, pensioners and the “squeezed middle” would see the benefit immediately:

- **Raising the threshold would take experienced NHS workers and teachers out of the 40% rate immediately, and put £400 extra in their pockets.**

Currently tens of thousands of NHS Band 7 workers making around £50,000 - experienced nurses, midwives and paramedics – are either already paying 40% or are set to pay it in 2027 when their pay increases.[6]

Increasing the threshold with inflation would take them out of this tax bracket.

Experienced classroom teachers will also be taken out of the 40% rate, as would workers across the private sector: engineers, technicians, tanker drivers.

An experienced teacher outside London makes £50,500. Uprating the threshold will take them out of the 40% rate in 2027.[7]

This would mean they would all have an extra £400 in their pocket in 2027, compared to if the thresholds were kept frozen.

- **It will stop a million pensioners and low paid workers paying any income tax.**

Currently the state pension is worth £12,547 a year. It will increase again in 2027 through the Triple Lock.[8]

If the Personal Allowance doesn't rise, as many as a million pensioners who rely on the state pension will have to pay tax on their pension.

They are set to lose £88 in 2027 as a result. Increasing the threshold would keep this money in their pockets[9]

Raising the thresholds would also stop part time workers – shop assistants, care workers, cleaners – from paying income tax altogether.

- **It would give millions of workers an extra £88 in their pockets in 2027.**

Increasing the thresholds with inflation would mean £88 extra in the pocket of millions of workers in 2027.

Workers making just over £13,000 would pay £88 less in tax than they would have paid if the thresholds stayed frozen.

Savings from scrapping the freeze at different income levels

Current Pay	Extra money in 2027/28
£13,000 -	£88
£50,000	£384

- **The average worker would have an extra £700 in their pocket by 2030/31.**

If the thresholds continued to rise in future years, as they always used to do, workers would enjoy more money in their pockets.

Freezing the thresholds means more of your income is dragged into the tax net every year as your wages rise.

Unfreezing them works the other way, meaning workers can enjoy the benefits of real wage increases.

Unfreezing the thresholds to 2030/31 would save the average full time worker close to £700.

A worker on £51,000 would save close to £3,500 as a result of not being dragged into the 40% tax bracket.

Thresholds if allowed to increase with inflation in 2027

Thresholds	2026/27	2027/28	2028/29	2029/30	2030/31
Personal Allowance	12,570	13,010	13,309	13,575	13,847
40%	50,270	52,029	53,226	54,291	55,376

Savings to 2030/31

Current Pay	2027/28	2028/29	2029/30	2030/31	Total
£13,000 -	88	148	201	255	692
£50,000	384	682	947	1,217	3,230

2.1.2 Cost: £4 billion to £6.5 billion

Using HMRC data, we estimate this would cost the Government between £4 billion to £6.5 billion in 2027, depending on the inflation rate when the thresholds are set.

This will be September, as per the Income Tax Act 2007.

- If action is taken to control inflation and the rate reduces to the Bank of England’s 2% target, the cost will be lower. Bringing inflation down to 2% would lower the cost to £3.7 billion.

2.2 Option 2: Undo the freezes since 2024

Unfreeze the 20% and 40% tax thresholds and increase them to what they would have been had Labour scrapped the freeze when coming to power.

- This would restore the tax free Personal Allowance to just under £14,000.
- It would restore the 40% threshold to £55,000.

This would be a 9.2% increase.

2.2.1 £232 back in millions of workers’ pockets in 2027

More workers would be taken out of the 40% tax band.

More low income workers would be taken out of tax altogether.

And the cash benefit to workers across the economy as they would all benefit from a bigger Personal Allowance:

- **This would put an extra £232 in millions of workers pockets in 2027.**

Increasing the thresholds with inflation would mean an extra £232 in the pockets in 2027 of millions of workers making from £14,000 up.

- **Experienced nurses, teachers and skilled workers would see an extra £528 in their pockets.**

A worker on £50,000 would save £528 in 2027 compared to if the threshold stayed frozen, thanks to both the Personal Allowance and the 40% thresholds rising.

Savings from uprating thresholds back from 2024

Current Pay	Extra money in 2027/28
£14,000 -	232
£50,000	528

- **These savings would grow over future years, giving millions of workers £1,300 extra in their pockets up to 2030/31.**

Workers making from £14,000 up would see savings of close to £1,300 up until 2030/31 when the freeze is currently set to end.

Thresholds if uprated from 2024

Thresholds	2026/27	2027/28	2028/29	2029/30	2030/31
Personal Allowance	12,570	13,729	14,045	14,326	14,613
40%	50,270	54,907	56,170	57,293	58,439

Savings to 2030/31

Current Pay	2027/28	2028/29	2029/30	2030/31	Total
£14,000 -	232	295	351	409	1,287
£50,000	528	829	1,097	1,370	3,824

2.2.2 Cost: £14-£16 billion

Using HMRC data, we estimate this would cost the Government between £14 billion to £16 billion in 2027, depending on the inflation rate when the 2027 thresholds are set.

2.3 Option 3: Undo the freezes from 2022

Unfreeze the 20% and 40% tax thresholds and increase them to what they would have been had they increased with inflation since 2022.

- This would restore the Personal Allowance to £16,600.
- It would restore the 40% threshold to over £66,000.

That would represent a 32% increase.

2.3.1 £808 back in the average worker's pocket

As well as more people pulled out of tax and the 40% rate, the extra cash in people's pockets would be significant.

- **£808 more in the average worker's pocket in 2027.**

Millions of workers would see their take home pay increase significantly in 2027. Workers on £17,000 up would get £808 back in their pocket as a result of the Personal Allowance increasing, for example.

The 40% threshold would be back to a level where just one in ten workers pay it, not the one in four predicted as a result of the freeze.[10]

Workers making between £17,000 to £45,000 would see savings of close to £1,300 up until 2030/31 when the freeze is currently set to end.

- **This would put £3,600 back into workers' pockets by 2030/31 if the thresholds continued to rise.**

Thresholds if uprated from 2022

Thresholds	2026/27	2027/28	2028/29	2029/30	2030/31
Personal Allowance	12,570	16,611	16,993	17,333	17,680
40%	50,270	66,432	67,960	69,319	70,705

Savings to 2030/31

Current Pay	2027/28	2028/29	2029/30	2030/31	Total
£17,000 -	808	885	953	1,022	3,668
£50,000	1,104	1,419	1,698	1,984	6,205

2.3.2 Cost: £37 billion to £40 billion in 2027.

Using HMRC data, we estimate this would cost the Government between £37 billion to £40 billion in 2027, depending on the inflation rate when the 2027 thresholds are set.

3 How can we pay for it?

The context: the UK's tax burden is rising, from an average 33% of GDP before 2020, to 36.4% last year. And it's set to keep growing. The burden should not fall on workers.

Taxes on work (income tax and National Insurance) have increased from 14.7% of GDP in 1999 to 17.6% last year.

That is: almost the entire extra tax burden has fallen on workers. In the same period, taxes on corporate profits are unchanged (3.4% of GDP), even after windfall taxes on energy profiteers.

Taxes on wealth (inheritance, capital gains, and stamp duties on shares and land) are just 1.8% of GDP.[11]

3.1 Deficit spending is not an option: we must tax wealth and profits

We agree with the principle that current spending should be paid for through taxation not extra borrowing. Instead, we propose increasing taxes on wealth and profits. The following taxes would raise enough money to unfreeze the thresholds and create extra revenue for public services:

£25 billion from a wealth tax on society's richest like the one in Switzerland

- Taxing all the top 1%, at a rate of 1%.

£12 billion through equalising capital gains tax with income tax

- Currently capital gains tax charged on investment is capped at a maximum of 24%, as opposed to the top rate of 45% on income tax. This is an unfair difference that gives a tax break to landlords while hitting the public purse.

£10.5 billion through increasing corporation tax

- UK corporation tax is currently 25%. This is the lowest corporation tax rate of the G7. Increasing it to 28% would bring it back to the same level as 2010.

£10.2 billion through extending national insurance to investment income

- Currently workers have to pay national insurance on wages – but investors pay nothing on gains from investment income.

3.2 And more money in workers' pockets would drive growth and VAT receipts

There would be wider economic benefits from putting more money in workers' pockets that would mitigate the costs to the Government:

- **Positive impact on growth.**

Lowering the tax burden on workers increases household disposable income – "puts money back in workers' pockets". This means more demand in the economy, so higher growth. Lowering the income tax burden also boosts growth by incentivising work. In technical terms, there is clear economic evidence that workers on average incomes have a higher "marginal propensity to consume" (MPC) – i.e., spend more of their income – than the rich.[12]

- **Increased VAT receipts**

The Treasury would also see a benefit from increased VAT receipts. The figures below estimate the revenue to be raised from VAT receipts from our different options. They assume workers who benefit from the threshold increase will spend between a third to a half of their extra income in the economy. This is likely to *underestimate* the amount raised so these figures should be read accordingly:[13]

- Option 1: £0.2 billion
- Option 2: £0.5 billion
- Option 3: £1.2 billion

- **No significant inflation impact**

If this tax reduction increased government deficit, it could be argued to create a (very small) inflation impact. However, this is not the case if it is funded by increasing tax elsewhere (on wealth and profits). The policy will increase disposable income and growth – which may have a minor inflationary impact. But this is the same for all growth-positive policies.

Methodology and References

We have taken past CPI from the Office for National Statistics' CPI Index, and forecast CPI from the Bank of England and the Office for Budget Responsibility's latest Economic and Fiscal Outlook.

We have used September CPI to set the following years' thresholds, following the procedure set out in the Income Tax Act 2007, Section 57.

On the advice of the OBR we have used HMRC's "Ready Reckoner" dataset to model the cost of unfreezing the thresholds going forward and since 2024. We have modelled the range for both using the inflation forecast sources described above.

We have used the OBR's Economic and Fiscal Outlook for November 2025 for the costs of "full restoration". The range estimates both the potential impact of the additional rate on the total cost (assumed to be a small percentage as per Institute of Fiscal Studies estimates) and different inflation rates.

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[1] The freezes do not apply to Scotland where the Scottish Government sets the equivalent thresholds.
[2] https://workplacejournal.co.uk/2026/01/over-1-2-million-retired-households-mainly-reliant-on-state-pension-just-group/
[3] https://ifs.org.uk/articles/how-are-frozen-tax-thresholds-reshaping-who-pays-personal-taxes
[4] https://www.ft.com/content/d2e7abe5-cbf4-4e80-85d4-4663efcf7f5c?syn-25a6b1a6=1
[5] https://www.ippr.org/articles/taxing-choices-taking-the-publics-temperature-ahead-of-the-budget
[6] https://www.nhsemployers.org/articles/pay-scales-202627; Headcount: https://digital.nhs.uk/data-and-information/publications/statistical/nhs-workforce-statistics/april-2026 Table 11
[7] https://neu.org.uk/advice/your-rights-work/pay-advice/pay-scales/pay-scales-england
[8] https://www.gov.uk/new-state-pension/what-youll-get
[9] https://workplacejournal.co.uk/2026/01/over-1-2-million-retired-households-mainly-reliant-on-state-pension-just-group/
[10] https://www.ft.com/content/d2e7abe5-cbf4-4e80-85d4-4663efcf7f5c?syn-25a6b1a6=1
[11] Taken from the OBR's Public Sector Finances Databank. GDP data is taken from the ONS' dataset YBHA.
[12] See: Japelli and Pistaferri 2014; Fisher et al 2019
[13] https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/vat/ for VATable goods and the studies above for MPC rates