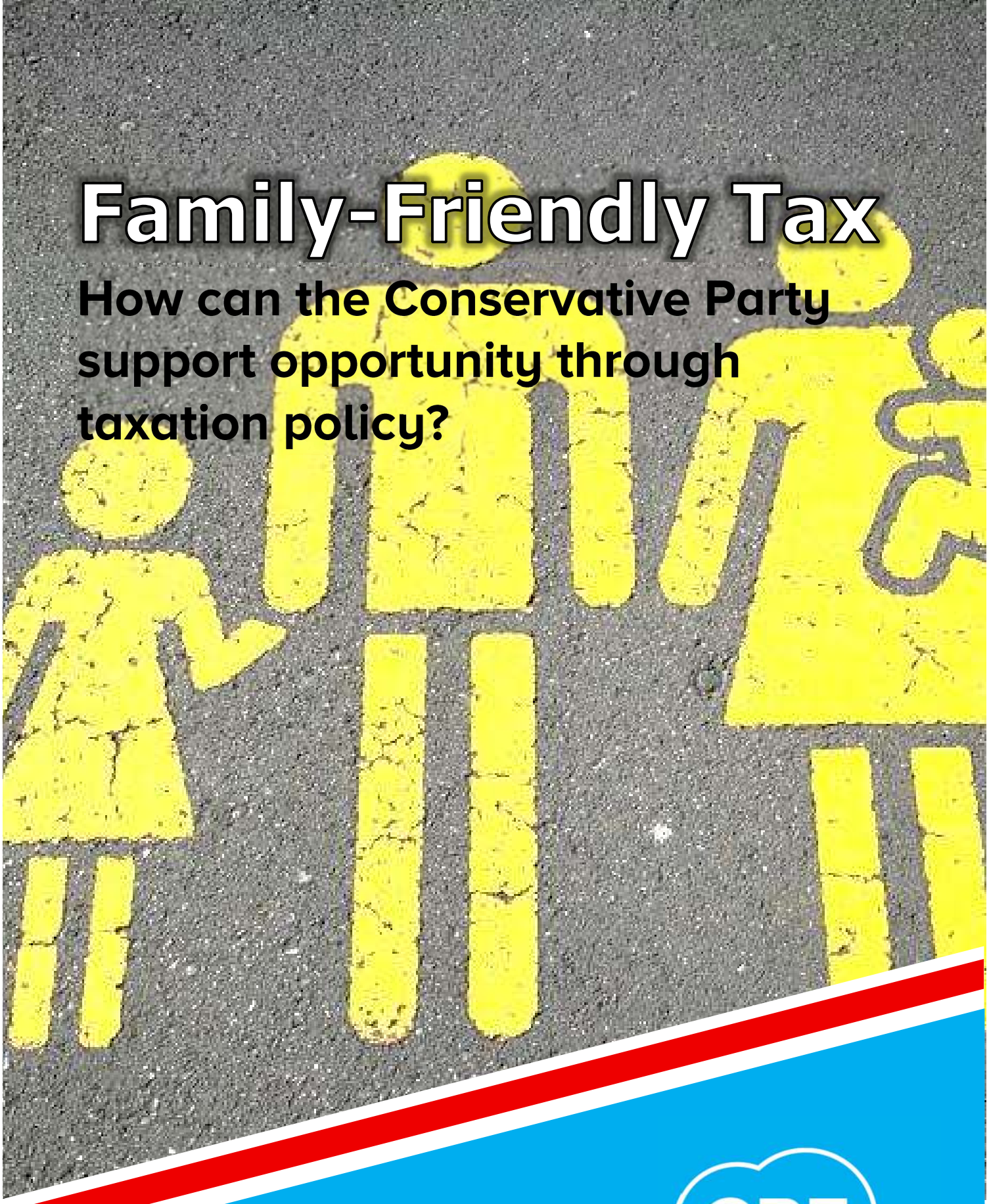


Family-Friendly Tax

How can the Conservative Party support opportunity through taxation policy?

Discussion Briefs exist to stimulate debate. They do not necessarily represent the views of the Conservative Party.

CPF
Conservative Policy Forum

Contents

Foreword 3
How to Take Part 4
Summary Briefing 5
The challenges 5
UK Demographic Trends: 1980-present 5
Nature of the Problem 6
Key pain points and thresholds 8
Structural Tax distortions 8
Welfare vs. Tax Deductions 9
Low-income work and interactions with the benefits system 9
Why is Tax Reform so hard? 10
Conservative Solutions 12
Approach from Labour 13
International comparisons 14
Questions for Discussion 15

Foreword

Dear Members and Supporters,

Work hard, get an education, build a career, save what you can, and take responsibility for your own future. These are the things we've traditionally encouraged. But today, too many young people are priced out from buying a home, starting a family, and building the secure life they want.

Our Conservatism is inter-generational: each generation should not be expected to work harder simply to achieve less than the one before it, and young people should not be asked to carry an ever-greater burden of taxation and debt while the milestones of adult life move further out of reach.

This is a cross-cutting problem across savings, pensions, home ownership and more, and one of the clearest examples is family formation.

The decision to have children is a personal one. It is not the job of government to tell people how to live their lives. But nor should government make family life unnecessarily difficult through a tax and welfare system that punishes work, distorts choices and makes it harder for ordinary working people to afford the lives they want. If working people do wish to have children, it is unnecessarily hard.

A genuinely family-friendly approach should therefore ask a simple question: are we making it easier or harder for people who work, save and take responsibility to form and support a family?

The CPF Taxation Member Expert Group is a group of tax specialists who are working with the Conservative Party and Renewal team on finding in-depth answers to some of the questions posed in this paper. We look forward to your contributions and ideas.

Aarti Joshi
Chairman, Taxation Member Expert Group

13 October 2026

How to Take Part

Please send your responses to the questions in this paper to CPF@conservatives.com, using the associated response form published alongside the paper on the CPF website. A summary of responses to this consultation paper will be sent to the Renewal team, the Party Chairman, and the CPF Management Team. The deadline for sending your response is 27th November.

We look forward to hearing your views.

Kind Regards,

The CPF Management Team
John Penrose, CPF Chairman
Ahmereen Reza OBE, CPF Vice-Chairman
Frances Lasok, CPF Director
Sai Karthik Madabhushi, CPF Deputy Director - Nations and Regions
Selina Short, CPF Deputy Director - National Policy

With thanks to contributors: Aarti Joshi, CPF Members' Expert Group (Taxation) Chair, and CPF Members' Expert Group (Taxation) participants, David Humphries, Andrew Constable, Paul Bartlett, Philip Gent.

www.ConservativePolicyForum.com | @ConservativePF

Summary Briefing

The challenges

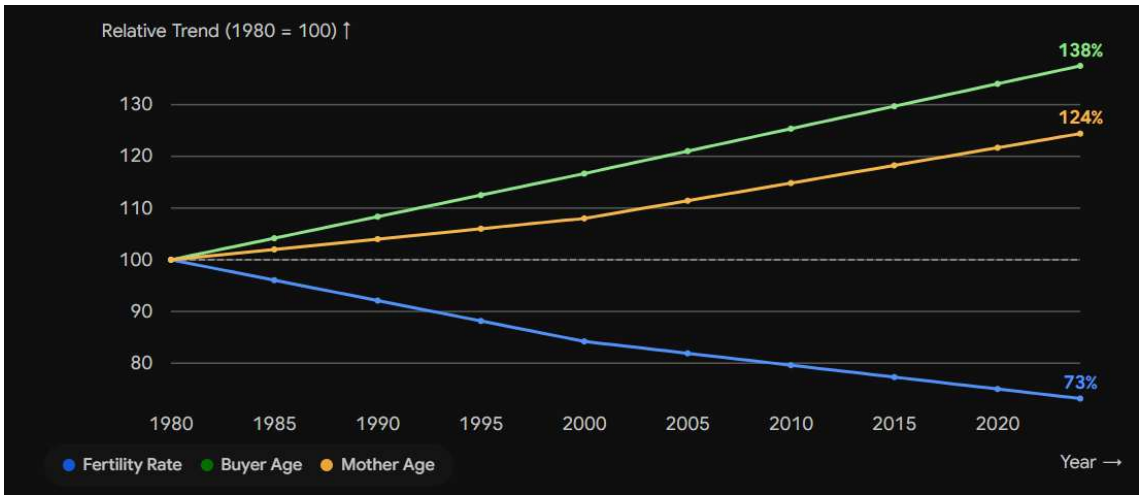
This paper outlines the key policy challenges facing British families within the current tax system.

Family formation is occurring later than ever: the average age of a first-time homebuyer has reached 34[1], the average age of a first-time mother has risen to 31[2], and the Total Fertility Rate (TFR) has dropped to 1.41[3].

Younger generations face a growing tax burden alongside high student loan interest rates, rising rents, and steep childcare costs, forcing many to delay family formation or emigrate.

To reverse these trends, targeted tax reforms are needed to empower young people to form families, build businesses, accumulate assets, and pass wealth to the next generation, as well as ensuring that work does pay.

UK Demographic Trends: 1980-present[4]



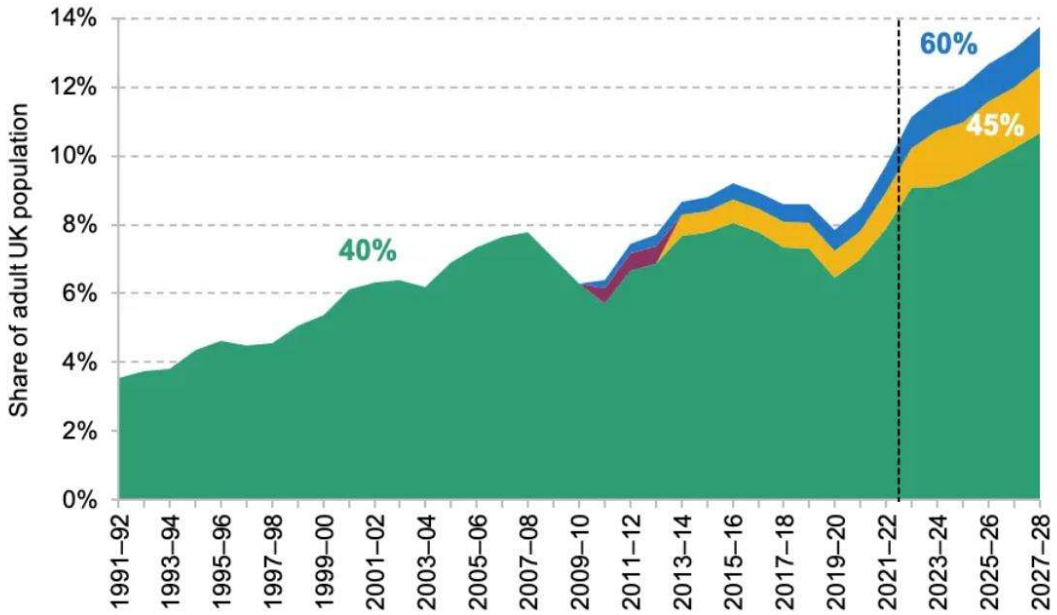
[1] https://www.gov.uk/government/statistics/chapters-for-english-housing-survey-2023-to-2024-headline-findings-on-demographics-and-household-resilience/chapter-3-housing-history-and-future-housing
[2] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/bulletins/birthsummarytablesenglandandwales/2025
[3] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/bulletins/birthsummarytablesenglandandwales/2025
[4] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/bulletins/birthsummarytablesenglandandwales/2025

Nature of the Problem

Single individual filing: The current system in the UK relies strictly on individual tax filings rather than looking at household income as a unit. The UK is an outlier in this respect, and the availability of reliefs and childcare depends on the earnings of the highest earner.

Frozen Income Tax thresholds: Income tax thresholds—such as the basic rate limit and the 40% higher-rate threshold (£50,270)—remain frozen. Fiscal drag is pushing a record proportion of working-age families into the 40% tax bracket[5], leaving them with less disposable income. The Personal Allowance too is frozen, at £12,570, pulling lower-paid workers and pensioners into the tax net.

Adult UK population by marginal rate of Income Tax[6]



Student loan repayment rates: Plan 2 student loans accrue interest at a rate up to RPI+3%[7]. The student loan repayment model currently operates as an additional marginal income tax on young professionals, reducing post-tax disposable income for graduates by 9% above a threshold that they are able to spend on rent and childcare, and other essentials.

[5] https://ifs.org.uk/news/one-five-taxpayers-and-one-four-teachers-set-be-paying-higher-rate-tax-2027-threshold-freezes
[6] https://ifs.org.uk/publications/deepening-freeze-more-adults-ever-are-paying-higher-rate-tax
[7] https://commonslibrary.parliament.uk/research-briefings/cbp-10654/

Cost of childcare: Childcare in the UK is some of the most expensive in the OECD due to regulations. The government offers 30 hours a week free for families with children aged between 9 months and 4 years old, but this offer is withdrawn for families with one parent earning more than £100,000 a year. 30 hours a week isn't enough for working parents who are average earners, who then often need to top-up the Government provided offer. At the 2026 Conservative Party Conference, Kemi Badenoch announced a policy to end the £100k childcare cliff edge.

Stamp Duty Land Tax ("SDLT"): SDLT rates act as a financial barrier to homeownership, locking out young families with saved deposits. Abolishing SDLT on primary residences would eliminate a major obstacle to family home ownership, and is something that the Conservative Party has pledged to do.

Systemic Disincentives: The British tax framework penalises families through severe cliff-edges and an individual-based taxation model.

Key pain points and thresholds

Structural Tax distortions

Frozen Income Tax thresholds – The £50,270 threshold for the 40% higher-rate income tax has been frozen for several years. High inflation and wage growth have accelerated fiscal drag, drawing millions of middle-earning workers into the higher tax bracket. The personal allowance has also remained frozen at £12,570, meaning that those earning more are being taxed more. Freezing the basic rate threshold affects low-to-median earners making £20,000–£35,000 by stealth-taxing their basic cost-of-living wage rises.

Frozen student loan repayment caps – repayment thresholds for Plan 2 student loans remain frozen, forcing graduates to repay 9% of their gross income over the cap of £29,385 sooner and for longer[8]. Alongside punitive interest rates (up to RPI+3%), this creates a heavy, long-term tax drag on young professionals trying to save for a home deposit, and behaves as an additional tax.

Child Benefit Tapering: The High Income Child Benefit Charge (HICBC) tapers between £60,000 and £80,000[9] based on the highest single earner's income, regardless of overall household wealth, meaning that parents on middle incomes are losing Child Benefit as they receive pay rises.

The £100,000 Personal Allowance Cliff-Edge and abrupt loss of free childcare: For every £2 earned above £100,000, £1 of the Personal Allowance is withdrawn, creating an effective marginal income tax rate of 60% up to £125,470 (excluding National Insurance and Student Loans) [10]. When adding in 2% Class 1 National Insurance and a 9% Plan 2 Student Loan, the marginal effective tax rate can reach 71% (or higher with Plan 5/Postgraduate loans)[11]. Crossing the £100,000 per annum salary threshold by one parent also results in the complete loss of up to 30 free hours of government-funded childcare per child, meaning a £1 salary increase can cost a family £10,000-15,000 in post-tax income. At the 2026 Conservative Party Conference, Kemi Badenoch announced a policy to end the £100k childcare cliff edge.

Reduced Disposable Income: The combined clawback of allowances, benefits, and childcare support creates perverse effective marginal tax rates that actively discourage career advancement.

[8] https://www.gov.uk/repaying-your-student-loan/when-you-start-repaying
[9] https://www.gov.uk/child-benefit-tax-charge
[10] https://ifs.org.uk/taxlab/taxlab-taxes-explained/income-tax-explained
[11] https://www.oxfordeconomics.com/resource/plan-2-student-loan-burden-hits-london-hardest/

Welfare vs. Tax Deductions

State redistribution model: The UK relies on a state redistribution model for childcare rather than a tax relief model. Legacy schemes like Childcare Vouchers previously permitted salary sacrifice for childcare expenses; today, parents are reliant on the Government provided 30 hours, that they often then need to top-up, and higher-earners receive no free childcare hours.

Perceived Unfairness: High earners contribute a disproportionate share of public revenue, with the top 1% of earners generating nearly 30% of all Income Tax receipts[12], yet are excluded from family support mechanisms and receive no tax deductions for working costs like childcare.

Low-income work and interactions with the benefits system

Universal credit tapering: Disincentives to work exist at the lower end of the income spectrum because of the interactions of earned income with the benefits system, where a worker can be worse off after taking on full-time work.

Universal credit (UC) eliminated legacy 16-hour cliff-edges, where workers would previously immediately lose Jobseekers Allowance once they worked more than 16 hours a week. Universal credit is tapered and is reduced by 55p for every £1 earned above a worker's allowance.

This taper applies to net earnings, after 20% Income Tax and Employee National Insurance, where low-earners face an effective marginal tax rate of c.68% on additional hours worked.

Passported benefit cliff-edges: Once earnings reduce UC to £0, workers face severe cliff-edges, losing access to Free School Meals, NHS prescription coverage, and energy relief (such as the Warm Home Discount).

Work-Welfare Gap (CSJ data): Data from the Centre for Social Justice highlights this work-welfare gap. Figures show that where an economically inactive Universal Credit claimant with average housing benefits and PIP for ill health could receive an income of c.£25,000, a full-time worker on the National Living Wage (NLW) is expected to earn £22,500 after paying income tax and national insurance, leaving the UC claimant earning £2,500 more than the worker[13].

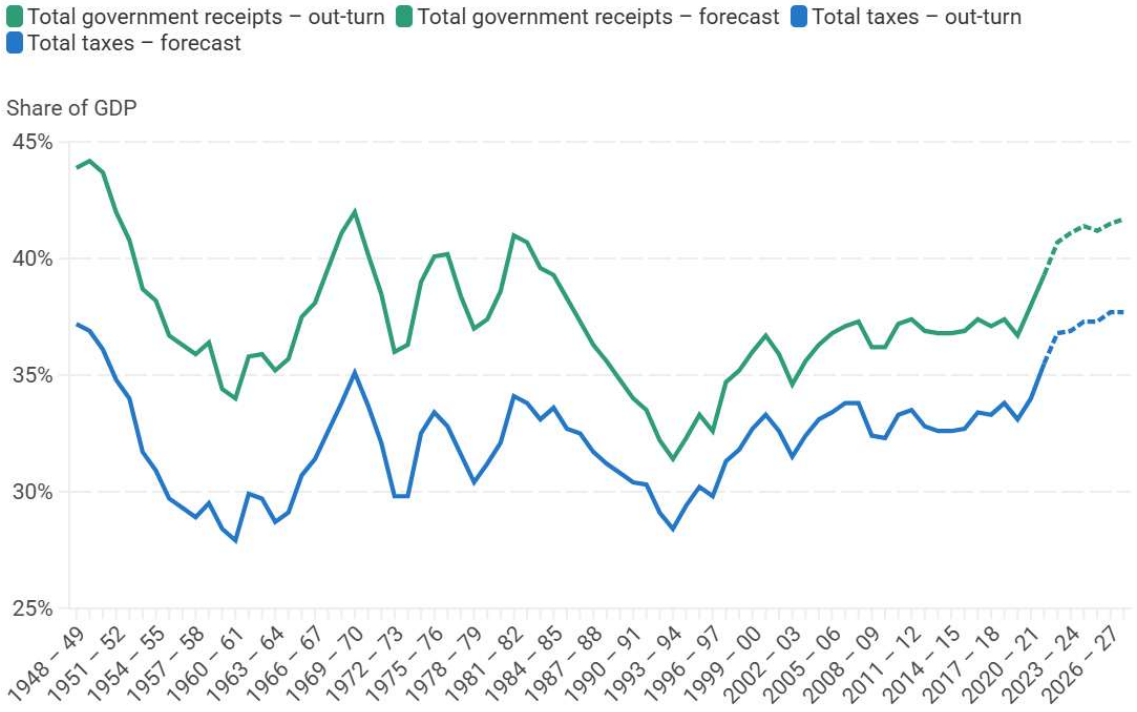
[12] https://ifs.org.uk/taxlab/taxlab-taxes-explained/income-tax-explained
[13] https://www.centreforsocialjustice.org.uk/newsroom/cost-of-welfare-2025

An out-of-work single parent, claiming PIP for anxiety and benefits for a child with additional needs would receive £36,900, over £14,000 more than the post-tax wages of a full-time worker on the national living wage[14].

Why is Tax Reform so hard?

Record Tax Burden: The UK tax take stands at roughly 38% of GDP, its highest level in almost 80 years, while public spending has reached c45% of GDP[15]. Raising taxes on working professionals has recently served as a path of least resistance to finance state spending.

UK Government revenue over time[16]



Demographic & Spending Pressures: Welfare and pensions consume the largest share of UK public expenditure. Driven by demographic changes and long-term health trends, spending on health and disability benefits alone is forecast to reach £100 billion by 2029[17]. This unsustainable growth creates structural pressure to maintain high taxation on younger, working-age professionals to finance state entitlements.

[14] https://www.centreforsocialjustice.org.uk/newsroom/cost-of-welfare-2025
[15] https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/articles/governmentexpenditureintheuk/2026-05-18
[16] https://ifs.org.uk/taxlab/taxlab-key-questions/how-have-government-revenues-changed-over-time
[17] https://obr.uk/wtr/welfare-trends-report-october-2024/

Regulatory Costs: British childcare remains among the most expensive in the OECD, driven significantly by strict regulatory ratios and operational requirements.

The outcome?

Young families cannot accumulate assets early in life due to income tax and childcare penalties, while families with existing assets face high barriers when trying to pass them down.

Conservative Solutions

Ideas generated by Conservative members and supporters. These are not exhaustive, and should not be taken as Conservative Party policy.

Tax Filing & Allowance Reforms:

- Introduce the option for citizens to file their tax returns jointly as a family unit.
- Explore mechanisms to allow partners to transfer unused personal allowances to one another.
- Explore the ability to transfer unused basic rate tax bands between couples.

Childcare and Family Support:

- Reform the system so that families can claim a direct income tax deduction for childcare costs.
- Introduce specific council tax discounts targeted at supporting families, moving beyond the traditional single person's discount.
- Introduce tax deductions or allowances for couples undergoing private IVF treatment, so that the cost of IVF is tax-deductible.
- **At the 2026 Conservative Party Conference, Kemi Badenoch outlined a series of policies, following work from the Renewal team, including abolishing the £100k childcare cliff edge.**

Inheritance Tax (IHT) & Wealth Preservation:

- Fully reverse all of the Labour government's changes to inheritance tax, Agricultural Property Relief (APR), and Business Property Relief (BPR) which actively harm the ability to pass assets down to children.
- Extend the existing 100% spousal inheritance tax exemption so that it also includes direct transfers to children and grandchildren.
- **At the 2026 Conservative Party Conference, Kemi Badenoch outlined a series of policies, following work from the Renewal team, including abolition of inheritance tax on the family home.**

Housing & Multi-Generational Living:

- Implement the Conservative Party's proposed policy of abolishing stamp duty land tax on primary residences to remove downsizing barriers for the older generation.
- Allow individuals to claim elderly-friendly home improvements as a formal tax deduction.
- Broaden the definition of "dependents" to include elderly parents.

Approach from Labour

The Labour Government has made it more expensive for companies to hire employees into entry-level roles by increasing employers' national insurance, and has made it harder than ever for young people to get onto the property ladder by allowing the temporary increase in the nil-rate threshold for stamp duty land tax from £125,000 to £250,000 to expire.

The Government has also introduced the freeze on student loan repayment thresholds for Plan 2 student loans at £29,385 from 2027 to 2030. For plan 5 student loans, the threshold is frozen at £25,000, meaning that newer graduates are suffering the 9% repayment at an even lower threshold.

Since entering power, the Labour government has made it harder for families to pass on business assets, including farms and businesses, introducing major reforms to Agricultural Property Relief (APR) and Business Property Relief (BPR).

APR and BPR previously allowed eligible farm and business assets to be passed down entirely tax-free regardless of value, the rules now cap 100% relief and tax higher-value assets.

From 6 April 2026, full 100% Inheritance Tax relief is capped at £2.5 million per individual estate (£5 million for married couples), with assets above the cap receiving 50% relief (an effective 20% IHT rate).

The Conservative Party has explicitly pledged to reverse and repeal the capped relief on agricultural and business assets if returned to government.

We should consider as part of this exercise, what other measures we could put in place to enable families to pass on their wealth to their families and friends.

International comparisons

Household-Based Unit Models (France): France uses a quotient familial system where income tax is levied on the household. Married couples file jointly, and tax liability is directly reduced based on the number of dependent children rather than relying on post-tax welfare benefits.

Targeted Child & Care Deductions (Switzerland): Switzerland offers fixed tax deductions per child alongside direct tax deductions for third-party childcare expenses.

Joint Filings & Asset Deductions (United States): US married couples can file jointly to access wider tax brackets. The system also permits income tax deductions for dependent-care expenses and elderly-friendly home modifications.

Flat-Rate Asset Transfers (Portugal): Portugal exempts direct family members from inheritance tax entirely, charging a flat 10% stamp duty on transfers to non-direct heirs.

Fertility & Family Health Relief (US, Canada, Ireland): These nations allow taxpayers to claim IVF and fertility treatments as tax-deductible medical expenses.

Questions for Discussion

Groups may choose to focus on in-depth responses on certain questions or subtopics. There is not a need to answer every question.

General

1. **Balancing Family Support & Growth:** How can the tax system better support families? What is the right balance between targeted tax relief for families and driving overall economic growth?

2. **Childcare Delivery:** As well as the abolition of the £100k cliff edge, what other measures would be most effective in making childcare affordable, and how can we transition childcare support out of the welfare system and into the tax system?

3. **Household Income vs. Individual Earner:** How can we ensure that eligibility for free childcare and family support is calculated using total household income rather than the single highest earner's salary?

4. **Funding & Trade-offs:** What specific areas of public expenditure could or should be reallocated to fund tax relief for families?

5. **Non-Tax measures:** To what extent do we think measures other than tax relief can achieve the same outcomes in supporting families and driving overall economic growth? What other sorts of policies should be looked at, i.e. housebuilding, infrastructure development?

Income Tax

1. **Cliff-Edges & Tapering:** As well as the abolition of the £100k cliff edge on childcare, how should we reform income tax thresholds to remove disincentives to work?

2. **Fairness for Contributors:** How should the income tax system ensure that earners who contribute a substantial share of tax revenue also receive fair access to family support?

3. **Targeted Relief:** What other specific mechanisms within income tax (e.g., transferable allowances, pre-tax deductions) could help families manage childcare costs?

4. **Funding & Trade-offs:** What specific areas of public expenditure could or should be reallocated to fund tax relief for families?

5. **Rewards for working:** How else can we make sure that a career of working and saving is recognised particularly for those earning: minimum wage circa £24,000 pa; £30,000-40,000 pa and £40,000 to higher rate tax.

Property Taxes

1. **Housing Affordability:** What reforms to property taxation would best assist young families in purchasing their first homes?

2. **Eliminating Housing Taxes:** Given the commitment to abolish Stamp Duty Land Tax on primary residences, what further steps can be taken to reduce or eliminate taxes on home ownership?

3. **Council Tax Reform:** What changes could be made to Council Tax to alleviate the ongoing cost of housing for working families?

4. **Funding & Trade-offs:** What specific areas of public expenditure could or should be reallocated to fund tax relief for families?