

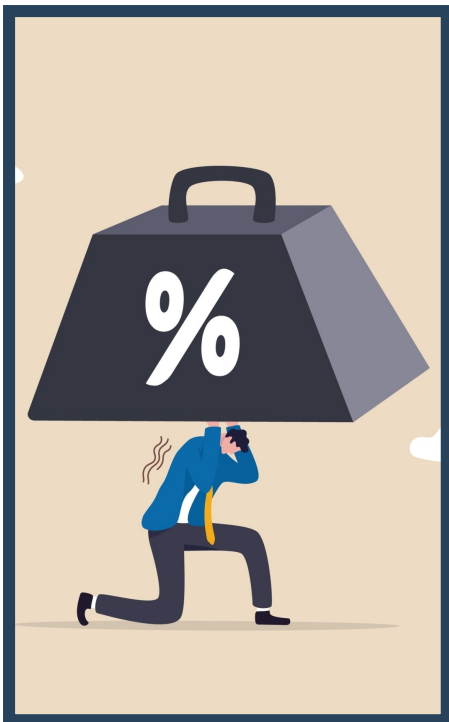
POLICY
THUMBNAIL

Making Work Pay

Reforming Benefits So It Always Pays To
Work



AUGUST
2025



THE PROBLEM

Britain's least well-off families & households pay much higher overall rates of tax than everybody else, because their benefits are reduced for every pound they earn, on top of the normal taxes they pay. The combined figure is called the Marginal Effective Tax Rate (METR) or Marginal Deduction Rate (MDR) & can easily add up to 70% (and even 100+% when some benefits withdrawal 'cliff edges' are reached) depending on the number of hours worked & types of benefits being claimed.

This is much higher than the top rate of 45% income tax, which means lower-paid families & households have significantly weaker incentives to work than high earners. And where someone is claiming more than one type of benefit the combined effects of their different withdrawal rates & rules become more difficult to understand or predict, which makes it risky to work harder because the results are so uncertain, & cuts incentives still further.

This creates profoundly negative results:

- 1) It increases costs for taxpayers, because many lower-paid people will work fewer hours and claim more benefits than if their incentives were stronger.
- 2) It hobbles our economy because employers find it harder to fill entry-level jobs, restricting the supply of labour so we grow slower than we could or should.
- 3) It creates glass ceilings & reduces opportunities for people to climb the economic ladder out of poverty.
- 4) It undermines legitimacy & fairness by imposing higher effective tax rates on benefits claimants than on top earners, so the 'haves' are subsidised by the 'have nots'.

THE SOLUTION

We will simplify & improve benefits withdrawals, so it always pays to work. All the existing, complicated benefits withdrawal rules will be abolished, & replaced by a single, simple, combined system where the maximum Marginal Effective Tax Rate (the combined rate of income taxes & benefits withdrawals) is reduced from the current 70+% to no more than the top rate of income tax (currently 45%).

The new rate will apply from the first £ of any income from work or investments received by benefits claimants. Once each claimant is earning enough for all their benefits (including the value of 'in-kind' or 'passport' benefits such as Motability or Warm Home Discount) to have been repaid, they will only pay normal income taxes on any further earnings after that.

No benefits eligibility application rules will be changed by this reform: only the withdrawal rules will be abolished & replaced.

The State Pension is already classed – rightly – as income rather than a benefits payment, & this will not change.



THE BENEFITS

This reform will:

- 1) Ensure that work incentives for lower-paid staff & benefits claimants are the same as for high earners, who keep more than half of any extra money they earn.
- 2) Make the benefits system much simpler, more predictable and easier to understand, so everyone is certain that working harder will always pay.
- 3) Significantly reduce benefits red tape & bureaucracy.
- 4) Ensure that everyone who ought to be eligible for benefits can still claim, and that the initial amount they receive (before income from work) is unchanged too.
- 5) Increase opportunities by making it easier for people to work their way up out of poverty.
- 6) Allow for our economy to grow faster because employers will be able to find more people willing to take entry-level jobs.
- 7) Make Britain fairer, because 'haves' would no longer be subsidised by the 'have nots'.

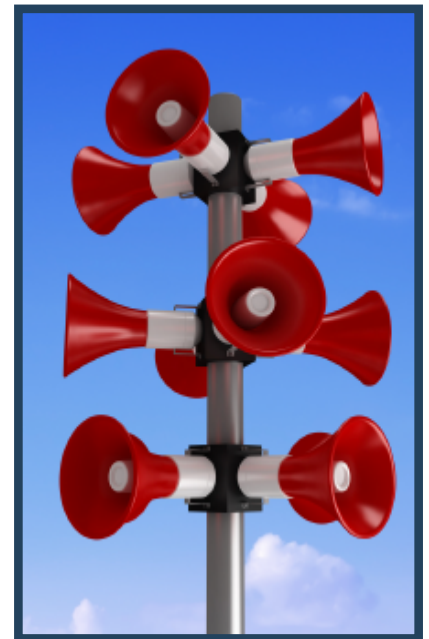
THE SOUNDBITES

"Why are we giving millions of unemployed & low-paid people weaker incentives to work than their higher-earning neighbours? It's economically crazy, expensive & unfair."

"How can we ask benefits claimants to climb out of poverty when they're facing higher tax rates than millionaires?"

"If people are worried whether a few hours overtime will lose them more in benefits than they're earning from work, is it any wonder they play it safe?"

"Worklessness is bad for everyone. Bad for the self-respect & health of benefits claimants denied the chance to live proudly independent lives. Bad for employers & our economy, hobbled by lack of staff. And bad for taxpayers who pay the bills too."



THE REBUTTALS



1. *Won't these proposals cost a lot more, because they claw back benefits more slowly than at present? Aren't you increasing the size of the state rather than shrinking it?*

You are right the whole point of stronger work incentives is that people keep more of every extra pound they earn. But at the same time the new system will save £££ by starting sooner than the old one (from the first pound someone earns), & by being lots simpler & cheaper to run. Plus it will quickly raise new £££ as more unemployed people & benefits claimants realise it will always be worth their while to work extra hours or apply for promotions in future too.

2. *Why are you only focusing on cutting taxes for well-off people earning over £100k? Isn't this just typical Tories ignoring the least well-off?*

Quite the opposite. These changes will help far more low-paid & unemployed people where the current tax & benefits systems combine to leave them facing higher overall rates than top-rate

taxpayers. You're only thinking about the effect of childcare clawbacks on high earners: that's a real issue & this new scheme will help them too, but there are far fewer of them than the low-paid or unemployed who will be the main people benefitting from our new approach.

3. *Isn't this dodging the real problem, that benefits payments are just unaffordably generous in the first place? Why are the Tories fiddling around the edges rather than facing the real issue?*

You are right we need to create a more sustainable & affordable welfare state, which is why we are also proposing ideas (like Build Up Not Out to reduce housing costs & Housing Benefit; or A Nation Of Capitalists to create a better & cheaper State Pension) to deliver one. But building stronger economic ladders for people to climb out of poverty has to be at the heart of any serious set of reforms as well, which is what this does. It's a false choice to assume we can only have one or the other: they aren't alternatives & we should aim to deliver both.

4. *Why are you exempting pensioners from this?*

Many pensioners like to stay active & earn a little extra money with a bit of paid work after they've retired, and these reforms will protect them from being hit with sky-high combined tax and benefits withdrawal rates, just the same as for working age people. The only exemption is there's never been any clawback of the state pension (because it's a pension rather than a means-tested benefit) and that won't change.

