

Joseph Rowntree and Flat Tax - an exercise in naive thi...

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The Joseph Rowntree Foundation have brought out a [report on flat tax](#). The right wing of British politics are [rubbing their hands](#) with glee. And I'm not surprised. Despite some input from the Institute of Fiscal Studies this is a pretty poor piece of work.

Just three references are cited other than the IFS data on which the conclusions are based, and one of those is from a postgraduate student who claimed he was an Oxford academic whilst doing a period of study there, in the meantime producing an undergraduate quality (i.e. naive and simplistic) paper for the Adam Smith Institute. Anyone who buys that as authoritative is, I am afraid to say, ill informed on this subject.

But worse than that, this paper is also naive. Why? because the paper recognises that no one could introduce a flat tax at 37% in the UK, but does none the less seriously discuss its impact and suggests it would be good for the poor.

Well, on the criteria it uses so it might be. But, I stress the point about the criteria used. These can only really be found by looking at the associated [Institute for Fiscal Studies report](#), which has received almost no attention. This tested four options, which I paraphrase as follows, all of which are meant to be revenue neutral:

- 1. Flat-rate income tax of 24%. The tax-free personal allowance is kept at its current level of £5,035 per year.*
- 2. Flat-rate income tax and NICs including increasing the rate that applies above the current upper earnings limit (UEL) from 1% to the full rate on all income. The extra revenue generated by abolishing the UEL allows the flat income tax rate to fall to 22%, coincidentally the same as the current basic rate. In this option, income tax and NICs in combination produce a flat marginal rate of 33%.*
- 3. Flat-rate income tax with universal tax credits. This option takes seriously the idea that tax credits are part of the income tax system, and flattens their combined rate structure. Instead of the current system, we flatten tax credits into a single tax/withdrawal rate. Thus each family is allocated a tax credit that is equal to their maximum eligibility under the current system. The personal allowance is raised slightly*

from the current level of £5,035 to £5,220, the point at which tax credits currently start to be withdrawn, to avoid creating losers among the working poor, and we estimate the flat tax rate at 37%.

4. Flat-rate income tax and NICs with universal tax credits. This combines options 2 and 3: the tax credit means test is integrated into the income tax rate, and the NICs rate schedule is also flattened, allowing the flat tax rate to fall to 35%. Thus there is a flat combined marginal rate of income tax, tax credits and NICs of 46% for contracted-in employees, whereas under option 3 the rate is 48% below the UEL and 38% above it.

The claimed benefits for the poor only happen in options 3 and 4. Before that they find exactly as I did on my survey of flat taxes for the ACCA. Under options 1 and 2 everyone bar the top 10% of income earners lose from a flat tax. The rich benefit enormously. And let's be clear, no one is taking flat taxes of 37%, let alone 46% seriously. Especially on income of just over £5,000 per annum, as proposed here.

So this study proves that flat taxes always benefit the rich and that the tax system cannot be used in this way to benefit the poor. But the Joseph Rowntree Foundation have allowed their name to be used to promote flat taxes, when their survey shows they will do harm if they were to be introduced at any rate that is politically feasible.

As I said, I'm afraid I think that naive on their part. I hope they work hard to rectify the damage they have done.