

Progressive taxation makes sense

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A [question on this blog](#) seems to require more significant treatment than a footnote largely hidden from view. [Emily Coltman](#) wrote:

If more tax funds are needed for the Treasury then surely the following people should be top of the list to provide those funds:

*a) those who can afford it and
b) those who don't already pay their fair share of tax.*

Would it be true to say that the super-rich exploiters of the non-domicile rules fall into both those categories?

So would the Revenue's time not be better spent finding out how much tax could be earned if the domicile loophole were closed, than chasing after and hassling honest small business owners?

I suspect I'm preaching to the converted here :)

Emily ignores one of the fundamental tenets of neoliberal economics. That is that the rich need to pay less tax to make them work more whilst the poor need to pay more tax to make them work more.

I kid you not. This is an argument oft put forward, and it was spotted in all its absurdity by no less an economist than J K Galbraith decades ago, but you will still hear it being repeated (if not so bluntly and with more padding put between the two arguments) by those on the Right. No one has yet told me when in this argument you switch from poor to rich.

But then, of course, the argument makes no sense. The simple fact is that as you have more cash each pound, Euro or dollar is proportionately worth less to you and therefore you can pay more tax out of it without increasing the overall perception of loss you suffer. And yet neoliberal economics, which bases its whole premise on this marginal concept seeks to deny this obvious conclusion drawn from it when it comes to tax. So

the rich can pay more tax: they are better off by definition, and their welfare loss from paying that tax is proportionately no bigger than is that suffered by those who pay in absolute terms proportionately less tax out of lower incomes. In other words, progressive taxation does (within limits) make complete sense.

Emily's also right. Those who benefit from the domicile rules are amongst the richer members of society. My reason for saying so is straightforward. You cannot exploit the domicile rules unless you have non-UK source income. Since it is hard to have that from earned income these days then it must be from investment income. The vast majority of people in this country have minimal investment income, or investment comes to that. Those who exploit this rule must therefore be in the minority who do. And that does, by definition, make them amongst the richer members of UK society.

They will, however, deny it. I have sat, quite often, with clients whose income puts them in the top 1% of UK income earners who have flatly denied they are well off. But you have to remember, it's tough being rich, and you need all the cash you can get to stay there. That's why the apologists for the rich put forward the idea that the rich work harder the less tax they pay. It's a good excuse for securing the means to pursue excess, but it's nothing more than that.

Put simply, it's Emily's logic that is sound. That we hear too often in tax discussion is flawed. And yes I do think the Revenue will have to come to terms with this sometime.