

The Taxpayer's Alliance needs an accountant

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The Taxpayer's Alliance has issued a report on [Tax and Entrepreneurship](#). There's a great analysis of it at [The Other Taxpayer's Alliance](#). As they point out, the TPA loves a dubious formula or two to help its case, in this case:

$$(1-t_1)\{[1+r(1-t_2)(1-t_3)]^T\}(1-t_4)$$

The TPA claim this is used to calculate

the marginal tax rate on income that is earned, saved and invested in a company and then passed on as an inheritance", where "t1 is the income tax rate, t2 is the corporate tax rate and t3 is the capital gains tax rate and t4 is the inheritance tax rate and r is the pre-tax return on an investment in a company.

Maybe, but I'll deal with that below. The Other Taxpayer's Alliance has a much better summary of it:

$$tpa=bs^2$$

I call this a modern classic, but let's for a moment consider the TPA version. As they say, this calculates

The top marginal tax rate on income earned, saved, invested in a company and then passed on to children.

Oh dear guys: assuming that you really are creating an entrepreneurial trading company the rate of Inheritance Tax is not the 40% you claim (which is a massive assumption in its own right), but 0%. You see — there is no tax on the gift of shares in an unquoted entrepreneurial company. Which means that the top rate of tax is not the 90% + that the TPA claims — but a figure much lower — and lower still when other double counts such as credits for corporation tax paid against income tax are taken into account (as they fail to do)— which does make things look very different.

It really does seem the TPA need the services of a good accountant. Their so called

experts would miserably fail any tax test if this is the level of their competence.

And they also, as Adam Lent points out at the TUC, need to consider their positioning:

There's a logical error here, isn't there?

- *The Taxpayers' Alliance* [claims](#) it "is committed to forcing politicians to listen to ordinary taxpayers"
- The Taxpayers' Alliance released a [pamphlet](#) today claiming that the 50p tax rate for those earning over £150,000 introduced in the last Budget will seriously damage the economy and is grossly unfair to the wealthy.
- [Polls consistently found](#) (PDF) that a large majority of ordinary taxpayers support the 50p rate and only a small minority oppose it (57% for and only 22% against in a Populus poll, for example) even after the very negative reaction of the press to the measure.

So which "ordinary taxpayers" do the TPA represent then who share their view that the 50p rate is a terrible error?

Clearly not the majority.

Maybe they actually represent the minority of taxpayers so blinded by their hatred of the 'evils' of tax, they haven't noticed that the biggest financial crisis in decades has slightly changed the imperatives we face? Or maybe it's the even tinier minority who will actually be affected by the 50p tax rate. Whichever, today's lamentable report from the TPA should finally put to bed any pretence that they speak for the majority of ordinary taxpayers.

Which does, I guess, bring us back to:

tpa=bs2

Which I couldn't resist repeating.