Funding the Future

Will the best off cut their income if tax rates rise?

Published: January 13, 2026, 3:14 pm

There has been an interesting response to the Compass tax report. One has been to challenge why my co-authors and I did say that:

Of course the right will argue that higher taxes will just lead to higher rates of avoidance or the flight of talent. Research by the Work Foundation busts the latter myth. Our view on avoidance is that if the top rate is increased while at the same time reforms are made to the tax system, minimising avoidance and evasion, the taxable income elasticity is likely to be small, if not zero.

Tax is a life issue, not just an economic one. As an accountant I know that. Of course it is. But, as is so often the case, those who claim that the well off will reduce their effort in the face of tax rises entirely miss the point. Those who think this adopt the assumptions of conventional micro-economics, with all its flaws. These assumptions are wrong: for a start this assumes people can respond to changes in tax. This may not always be true. And this model assumes that people conform to the model of homo economicus: that people are wholly rational but only with regard to matters relating to cash reward and that nothing else matters.

First, our target is people in the top decile of income earners. These people earn on average £94,000 a year — but many earn much more. A significant majority of these people (also representing the majority of tax paid) earn less than £150,000. I could, no doubt, work out what proportion of them is in employment: the reality is it is a significant number. Most of these people will not be rewarded by the hour; most of them with variable earnings will receive that variable pay in accordance with criteria quite unrelated to labour effort expended. A great many will work hours way above contract demand and do so for reasons quite unrelated to money. In other words, they have no reason to change their work effort depending on tax rate. And some will have no measurable opportunity to do so.

More important though, most in this large group will, based on my experience, spend a great deal of their income. Savings where they exist will be in institutionally run pensions in this income grouping. Remaining cash will be committed to excess consumption, over-sized housing, school fees, ponies and more. This is the reality for those who earn (as opposed to those who live on unearned income, who byu definition will not be changing their effort) in this group: they are committed beyond their means despite those means being amongst the highest in society.

As such for many their option to withdraw effort and reduce earnings in response to a tax increase does not exist. Rather, many, if not most in this group behave in exactly the same way as economists assume the low paid do in response to a tax increase: they are price takers and respond against their fixed budget commitments by seeking to increase effort, putting in more work to maximise reward to maintain what is by far the most important social goal of this group (and others), which is keeping up relative reward and appearing to out-perform others, usually indicated by conspicuous consumption. For this socio-economic reason the impact you suggest might exist is highly unlikely to do so.

And as I note, those with investment income will not be sweating harder. So their behaviour does not affect this issue.

And there is another factor to take into account. By eliminating tax avoidance for this group by setting minimum tax rates we do two things. First, we make net return have a direct relationship with gross earnings — so the incentive to work harder in the face of increased tax is enhanced because the incentive to avoid tax has been removed. And second, this removes the harmful and wholly destructive game of comparative tax deduction competition that many will play to seek to outperform the perceived tax avoidance of others in their peer group.

Finally, there are some other realities: the first is there is little demand for Brits abroad. The second is few can work abroad in places where it is easy to go because they can't speak the required language. The third is a lot of self employed are not in this earnings bracket, and those that are will not tax evade any more to get out of tax at this level than they do now. Fourth, really successful self employed people are not driven by money — or if they are it is as a gross and net a net measure.

I could go on, but the point is clear: the model on which claims that people with high earnings will reduce their effort in the face of tax increases ignore the realities of life.

Which means they really are not a safe basis for predicting outcomes. Which is why I ignore them — especially when, as is the case proposed, the change is hard to avoid and reasonable.