

Fisking the demand to cut the 50p tax and showing it fo...

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The FT has published a letter from twenty economists (only 20?) demanding that the 50p upper rate of tax in the UK charged on those earning more than £150,000 a year be abolished.

They say:

Sir, We welcome the government putting the promotion of growth at the top of its agenda given the fragile state of the UK economy. Other major economies have got back to pre-recession output levels; the UK has not.

Interesting idea this one: no evidence is given to support the comparison. Nor is the virtue of growth per se outlined. There is even no evidence given that the government has put growth at the top of its agenda since its actions strongly suggest otherwise, but let's move on.

In this context, we are concerned that Britain's 50p income tax is doing lasting damage to the UK economy. It gives the UK one of the highest personal tax regimes in the industrialised world, making it less competitive internationally and making us less attractive as a destination for both foreign investment and talented workers.

Hang on a moment: [ten European countries](#) have top tax rates at or near 50% and Switzerland is not far short.

And hang on too: this rate applies to about 1% of UK tax payers (we think: data is not yet ready - but this is [the HMRC estimate](#)). To be precise, it's about 328,000 people, HMRC think.

And oh dear, there really is a big error in the claim made: to suggest that talent and remuneration is correlated is, shall we say, just a little bit of an error? There

are extraordinarily talented people in this country making a lot less than £150,000 a year. Most of those who are making £150,000 are either in finance (making sure that pensions funds have generated no net return for their members over the last decade or more, for example - one of the weirdest definitions of growth I know and also one of the strangest definitions of talent) or are in senior management of major multinational corporations where there is no proven link between talent and return, but much more evidence of a cosy club designed to increase the wage gap between senior executives and the rest.

But let's continue:

The UK has already slipped from second to fourth place as a destination for inward investment.

Could that be because of George Osborne's stated intent to do nothing to help growth by cutting government spending so destroying UK markets, by chance?

Or the fact that he's actually encouraging UK companies to set up in tax havens and not the UK by offering a 5.75% tax rate on the profits they make there, by chance? Just a suggestion.

It punishes wealth creation by imposing on entrepreneurs and business people a marginal tax rate in excess of 50 per cent once national insurance contributions are added in.

How does this punish wealth creation? This is a) a marginal tax rate not applied to all income b) not applied to much income derived by 'talented' foreign individuals coming to the UK for less than seven years because of the domicile rule and c) I'm told highly avoidable because the same group say almost no one is actually paying this sum. So where's the 'punishment?' Is it so hard if you're in the top 1% of income earners to make a contribution to the society that gave you that opportunity to profit, enormously?

And where is the squeal of protest from the same group of economists about the poorest 10% in the UK having higher overall tax rates than the group with which they are concerned here?

This is particularly damaging when the UK needs to create new businesses in new industries and promote growth by small companies, which can grow fast. It applies to just 1 per cent of taxpayers, who already pay 24 per cent of all income taxes.

Oh come on: let's stop being ludicrous now. First, by definition most small businesses aren't going to get in the top 1% of income earners - there are about 4 million small businesses in the UK right now, at least (over 1 million companies and 3 million or so self employed). So, let's not make wild claims - not least because all small businesses that will grow fast will be limited companies - enjoying effective tax rates of around

20% or so, utterly undermining this argument.

If a small portion of these highly mobile workers move elsewhere because of the 50p rate then it is clearly a self-defeating way for the Treasury to try to raise money, and a reduction in tax avoidance would be more effective. It is often portrayed as a justified tax on the rich but the economic damage it causes means that it is against the interests even of ordinary workers who don't pay it.

Look, we can stop tax avoidance: that's easy. Just say that those on the 50% tax rate can offset just £5,000 of allowances and reliefs against their income each year in total and that's the job done. Simple, straightforward and saving a fortune in tax planning. Is that what they'd like? I'm all for it in that case.

But to deal with other issues: so, some of these highly mobile workers don't come here (for which there is no evidence, by the way: the claim is they're leaving) - the answer is UK workers take their place. Is there a problem with that?

And what is the damage to other taxpayers? Lower house prices? More equality and a more just society? More opportunity? Better pensions if they weren't being continually fleeced by finance? What is it, I might ask?

But the conclude:

We call on the government to drop the 50p tax at the earliest opportunity as part of a package of measures to stimulate growth. Only by returning to an internationally competitive tax regime will Britain enjoy long-term sustainable economic growth.

Followed by a long list of signatories most of whom are professors of economics. Now I've nothing against professors of economics but they aren't entrepreneurs. They don't earn £150,000. They take no risk: most of them have guaranteed jobs for life, and most of them have never created employment, ever.

I have taken real risk. I have created real employment. I have created and directed a number of companies. I have never made £150,000 a year and never will and do not care in the slightest about doing so. And I do know everything that this letter says is wrong, and wrong because it equates the City activity of arbitraging markets with entrepreneurship and with wealth creation. It is neither. It is a drain on our real economy, on our real wealth creation and claims the income of others to reward those who do it. If the 50p tax rate drives such activity away then it adds to the wealth and health of this country.

NB: I hope I eliminated the typos from this at 18.00 on 7.9.11. The original was written in haste before the school run - I didn't anticipate 10,000+ reads since then.