

# Funding the Future

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The Telegraph is going to publish a latter tonight calling for the abolition of the 50p tax rate. I've now heard about it from so many sources it has to be one of the worst kept secrets in publishing history. [This lot - whose funding is not known](#) - are behind it.

So, let's deal with some facts and not the allegations and aspersions which those seeking to abolish this tax rate usually peddle.

About [300,000 people will be affected by this tax](#) in HMRC's estimate. They have taxable income after allowances and reliefs of £150,000 a year. They represent about 1.0% of all taxpayers.

They're expected to have total taxable income between them of about £47 billion. So the tax - which is an extra 10% over and above the 40% rate previously applying should raise nearly £5 billion a year. It may, because of the disallowance of personal allowances and pension contributions for this group for which we have no real impact data as yet, be higher than that in my opinion - closer to £6 billion in fact, but I stress that's an estimate.

This is higher than HMRC have estimated - they've never gone above £3 billion. It is very obviously radically different from the claims made by opponents that this tax will cost the government money. But let's be clear: to achieve that goal all these 42,000 people would have to voluntarily reduce their incomes to below £150,000, either by giving them up or finding massive avoidance schemes or all would have to leave the country.

I can't see them giving up their incomes to save a relatively small amount in tax. So let's ignore that possibility. They still have to pay the mortgage and the school fees after all.

They may also tax plan - if so the case for a general anti-avoidance principle and for abolishing the use of personal service companies or for abolishing most of the remaining allowances and reliefs this group enjoy increases considerably. It would be unacceptable that this sum be added to the tax gap. But remember - HMRC say total tax avoidance in the UK is only £5 billion a year. I say it's £13 billion by individuals, but

either way, to avoid more than £5 billion extra is pushing the limits of plausibility. They won't avoid this liability because they can't. And the claim that the income tax take in January went down because of the 50p tax rate is just absurd. That is an impossible extrapolation to make that has no basis in fact at all.

Nor they will all leave. Candidly - they've all said that time after time after time and there's never been any evidence that more than a few people go. There's good reason for that; their businesses are here for a start! So are their families. So let's just treat this as the threat to throw toys out of the pram that it so obviously is.

In that case this tax can and will work, without a doubt and if it raises much less than I predict then action to tackle the avoidance is needed. So the first claim of this group, that this tax will not raise money is very obviously false.

It's also untrue for the vast majority that they pay 50% of their tax in income - even including NIC. You have to have all your income from employment and earn more than about £1 million for total tax including NIC to exceed 50%. Very, very few are in that situation. Most who are are bankers, FTSE 100 directors or footballers. Let's not cry too many tears. So the claim that these people are taxed at well above that is also completely untrue.

So what else is there to discuss? Well, when the verbiage is removed just one other thing, which is the claim that this tax will harm entrepreneurial activity in the UK. This is a ludicrous claim. It so happens I've seen the press release that accompanies this letter. As a result I know that every single business person supporting the cut runs their 'entrepreneurial' activity through a limited company. Corporation tax rates in the UK are 20% for the vast majority of companies - and 25% and falling for larger ones. Most pay somewhat less. And as many have reported - [including the E & Y Item Club](#) - the UK corporate sector is now sitting on cash of about £100 billion which it has not invested in productive activity because it can't think what to do with it. That's how good our entrepreneurs are! Those who can't get hold of that money are the SMEs the banks won't lend to. But whatever the situation, what is clear is that this tax rate will not in any way change the availability of capital to UK businesses - which are either awash with it or are being denied it by banks, but not by tax authorities. So the 50p tax rate will have no impact at all on jobs.

And as someone who has been an entrepreneur in my time - creating lots of jobs - I can tell you, tax never put someone off being one. Ever. Warren Buffett is one of the many real entrepreneurs who happens to agree with me. It may have an impact on salaried employees of companies (but I doubt it) - but entrepreneurs, not at all. That's because entrepreneurs are born, and because it's a fact that entrepreneurs who are really motivated by money either a) want capital gains or b) fail, because to be a really good entrepreneur you have to be passionate about your business, its products and its customers come what may - and the last thing that worries you in that case is a bit of tax. I respectfully suggest as a result those making this noise aren't really

very entrepreneurial at all.

So the second argument they make does not hold.

So let's come to their true, unspoken, agenda. They're greedy. They want this money. We have to consider that case too, even if it is not spoken.

Is giving these people - the 1% - a good use of money? The answer is no:

- 1) For reasons noted they will not create jobs with it: they'll pay themselves with it.
- 2) If they pay themselves the evidence is they'll save it e.g. by buying second homes. We already have a glut of saving in the economy. What we need is spending. These people save because they're wealthy - that's how you get to be wealthy. They also save because they already have more than enough income. That's because they're in the 1%. By definition they have more than 99% in the economy. But the result is that giving these people provides the exact opposite of what we need in the economy right now - which is people spending.
- 3) If the tax is paid though because the 50p rate continues then benefit will go to:
  - pensioners
  - those on benefits
  - those for whom jobs will be created
  - those who will not lose their jobs as a result of £6 billion of additional cuts.

All these people do spend and so keep the economy going, unlike those earning more than £150,000 who just save. So we get growth by giving these low paid people money; we don't get it by giving the same money to the well off.

- 4) We reduce inequality in society by taxing - and **all the evidence is that produces healthier, more vibrant and dynamic economies**. So we should tax.

So I've considered all the evidence and what we come down to is the fact that there is no argument for cutting this tax unless:

- a) You want to reward greed;
- b) You want to make the economic situation worse, and cost the economy both jobs and entrepreneurial growth as a result of removing the stimulus from the additional spending of the least well off;
- c) You believe in inequality.

I guess that's what the authors are saying in that case.

But count me out then. I'm sticking with a 50p tax rate, with fairness, and with growth.