

Tax, self employment and Laffer: a little bit of theory...

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I [mentioned yesterday that Tax barrister Jolyon Maugham is planning to use his blog](#) to open up discussion on tax policy and that I welcome that. Today he has published his first guest blog and it is by me.

The issue I deal with is one he asked me to address, which is the relationship between tax, the choice to be self employed and potential Laffer impacts i.e. whether progressive tax rates are likely to have any impact on effort.

The blog I wrote is here. It will appear on this site in due course, but right now might you [take a quick trip to Jolyon's blog to read it](#) and then come back here to read the rest of what I have to say on this?

Rather to my own surprise the article I have written is firstly quite theoretical and secondly depends on some algebraic formulations of the issue. I did not push the maths as far as I might, and it would be fun to do so, but the essence of the argument is threefold.

The first is that tax optimisation would involve the detailed balancing of far too many variables for anyone to actually do it.

The second is that advance knowledge of the values of many of those variables is needed to tax optimise and that, of course, is not possible.

The third is that once income of £100,000 or so is reached tax rates tend towards being flat and there is then little reasons for Laffer to have any impact because planning involves tax rate substitution at best and hat this can usually reduce rates for those in this income range over those available to many on lower incomes where the pressure to earn income reduces choice and substitutability so that any talk of Laffer effects is, candidly, nonsense.

But if those three conditions hold true (and I am sure they do, the first two as a matter of fact and the last as a factor of the UK tax system and its interaction with income) then the, perhaps, bigger question is why in that case tax professionals spend so much

time on the issue of supposed tax optimisation when by far the biggest and most important variable in the determination of net income may well be for the individual the level of gross income, on which far too few accountants can offer any useful advice, and for government the value of the variable I call V - which is the amount of gross income on which evasion takes place.

To summarise then, I think we have an accountancy profession that is focussing on the wrong issues, largely because most in it have little clue how to help anyone make money, and a government focussing on the wrong issue in tax design because it is ignoring the impact of evasion, whilst on the sidelines we have ideologues talking about Laffer when it is almost wholly irrelevant to debate in the UK.

[If I'm right that makes the blog at Jolyon's place worth reading.](#)