Are estimates of higher rate tax yields that are fuelli...

Published: January 14, 2026, 1:04 pm

Tax is one of the key battlegrounds in the UK's general election due on May 7. No tax is more important in that debate than the income tax, and arguments about the wisdom of cutting or hiking the top rate of income tax will heat up as polling nears. Some political parties advocate raising the top tax rate from the current 45 percent, while others think that it's a good idea to cut rates further, partly in the name of 'competitiveness'.

In response the Tax Justice Network has published new analysis of the evidence on the effectiveness of estimates of the yield from higher rates of, written for it by John Thompson, an independent analyst. It shows that the debates on the top rate of income tax hinge on official estimates from HM Revenue and Customs (HMRC) which are so uncertain as to be of little or no value in determining tax policy. Perhaps more damningly, the survey of evidence into the longer term wider effects of a change in the top tax rate are, as Thompson puts it:

"so selective as to be unreliable and, if relied upon, worthless or worse."

The economist Thomas Piketty, who was contacted for this study, declared himself 'surprised' by the way HMRC used his research to support its analysis.

The press release that supports the issue of the report is here, and the full report here.

As TJN says, its report highlights two main concerns:

First, official estimates of how much revenue would be gained or lost, and the impact on economic growth, from cuts or hikes to the top tax rate are subject to such huge, irreducible uncertainties that they are essentially meaningless.

The biggest problem in making estimates is that short term tax cuts or hikes change taxpayers' short term behaviour in ways that cannot be predicted with enough accuracy to be able to estimate longer term tax yields.

In support of their tax yield estimates HMRC cite other studies but these not only all *have their own problems and uncertainties, but are based on tax changes at different times, with different rates, in most cases for different countries with different tax systems and different societies and taxpaying cultures.*

Even if one were to take the underlying HMRC numbers from its own report as correct, a more informative conclusion would have been to say that yields from having raised the top rate from 40 to 50 percent were somewhere between more than a £4 billion revenue gain and more than a £2 billion loss. But the underlying HMRC numbers are also subject to further uncertainties.

Second, HMRC research seems to have been highly selective, in ways that appear to fit prevailing orthodoxy that higher taxes reduce growth.

For instance, HMRC reviews the literature about how higher top tax rates might affect growth, productivity, entrepreneurship, investment, and so on. One of its conclusions is, the report said, backed by the work of the influential French economist Thomas Piketty. We sent HMRC's conclusion to Piketty, and he said: "it is indeed quite surprising to learn that our paper with Saez and Stantcheva was used in this manner, given that we basically find the opposite."

Piketty's is arguably one of the most relevant studies in this area, so this mistake by HMRC is striking. Thompson remarks, based on extensive analysis of the evidence, and other examples of apparently selective use of data, that: "It seems that the prevailing orthodoxy that higher taxes reduce growth is so ingrained that contrary evidence cannot be recognised."

The report contains a wealth of detail and analysis that will be of great relevance for political parties, analysts and the general public and should serve as a longterm cautionary tale about complex studies in this area — and not just in Britain.

Going beyond Thompson's report, TJN would also point out that HMRC's assertion that cuts to the top rate of income tax necessarily make the UK's tax system "less competitive" reveal a fundamental economic illiteracy.

"Tax competitiveness' sounds wonderful but is in fact a Trojan horse for wealthy people and corporate interests to extract unjustified tax concessions paid for by mostly less wealthy taxpayers and consumers of public services. In short, 'tax competitiveness' is fools' gold.

TJN makes five recommendations:

1. Raise top income tax rates, if voters want that, knowing that the balance of evidence suggests no harm to the economy or revenues will result, and that benefits — in the form of higher revenues, higher growth and lower inequality — are also possible.

2. Create an Office of Tax Responsibility, as Richard Murphy has proposed. We *recognise that such a body can also be credulous or 'captured' by the tax-cuts-for-every-ailment brigade, but it potentially creates useful new lines of accountability.*

3. Create a robust new independent civil society tax watchdog, funded by fully independent donors, specifically to expose and debunk studies that otherwise have a track record of being received and regurgitated by credulous media and politicians without question. This would include a tax training facility for media and civil society actors.

4. If there is fear that higher tax rates will lead to increased avoidance or evasion, introduce measures cracking down in these particular areas. Cuts to HMRC staffing should be reversed.

5. As always, we need more and better research. Better still would be an outbreak of honesty and a recognition that even half-decent estimates may be impossible with short term pre-announced tax changes. The independence of civil servants to make objective evaluations must be protected, especially in the political minefield of tax policy. Policy makers must de-emphasise the importance of such studies, and muster the courage to say 'we really don't know' — then make honest political judgements based on factors like fairness and voters' declared wishes.

I was not involved in production of this report, but I warmly welcome it. Balance and reason has long been absent from this debate. This report adds both.