

# There's nothing wrong with a tax that raises no money

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I spent a long time in a discussion of tax yesterday. Now this is not a new experience, but what was interesting was noting the problem people have with embracing the idea that some really good taxes collect no money.

Take an example: if taxes on tobacco worked as well as I would like them to do then the revenue collected from them would be zero as no-one would smoke. That's not going to happen, of course, for two reasons.

First, we have got used to tobacco taxes raising revenue and may find it hard to do without them even if lung cancer incidence reduced. There is some argument for this: after all, people are going to die of something else likely to have an associated cost if it is not smoking related and so money is required.

Second, the tobacco price required to achieve a 'no-smoking' outcome may be too high to be socially acceptable because of the regressive tax burden it might impose before the zero revenue goal was achieved. As a proportion of income more tobacco taxes are paid by the least well off already.

As a result of this regressive quality of tobacco tax (which would also apply be a characteristic of sugar taxes as I understand it, but not so dramatically of alcohol duties) tax may simply not be the only way to tackle the problems relating to such issues, even if it has a role to play. And if revenue is also planned to be raised then any tax intended to address any such issue is compromised from the outset.

The same is also true in another area, which is the financial transaction tax. There is a conflict inherent in the design of this tax. If the aim is to raise revenue, for example for development, then it must not discourage too many of the transactions on which it is charged even though many might think some aspects of those transactions harmful. If excess speculation is to be ended the rate would need to be high enough to produce little or no revenue. This paradox needs to be solved.

I stress, no revenue can be the right outcome for a successful tax. I acknowledge that

fact in [The Joy of Tax](#). But as I also make clear in that book, tax design that overcomes these inherent paradoxes in many potential situations requires clarity of thought and transparency on tax design. And we don't see enough of that.