

## High pay, Labour and tax

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Labour is planning a policy to tackle high pay. As [the Guardian](#) reports:

*The full Labour manifesto, to be published on Tuesday, will include a proposal that aims to disincentivise excessive pay by charging companies a 2.5% levy on earnings above £330,000 and 5% on those above £500,000.*

*The rates mean that companies will have to pay £4,250 extra for every worker receiving £500,000 in pay and perks. For a person earning £1m a year, that would rise to £29,250.*

My obvious question is to ask why the timidity? Quite a number of years ago I wrote a policy for the TUC on this issue, which was adopted, which suggested that any payroll cost above ten times UK median pay (now just over £28,000 a year) should be disallowed for corporation tax creating an effective 19% levy on that excess at current rates. I still think that worthwhile and fair. There are three reasons.

First, this does not act as a disincentive to enterprise: the levy does not apply to profit distributions. Claims to the contrary are nonsense, and that will also be true of Labour's policy, as are the comments that follow.

Second, high pay of this level does not represent a reward for effort. It does instead represent the ability to capture a rent. In economic terms this is the equivalent of monopoly profit arising from a market imperfection. So, footballers benefit from the rent arising from there being only a very few TV channels. Bankers benefit from the advantages that regulation provides: a tiny number of organisations can really partake in most banking markets and they exploit that to their advantage. Their staff have captured part of that. Top paid directors in FTSE companies have formed an effective cartel amongst themselves to demand enormous rewards from which there is little evidence of benefit to their companies. And so on. The excess tax is then a tax on that ability to exploit for gain implicit in the high pay.

Third, there is a need to reprice this pay to beat inequality which is now widely

considered to be the cause of massive social harm as well as economic stagnation. The social harm aspect is, I hope, obvious. The stagnation comes from those very well off spending on asset price inflation (or saving, in other words) rather than recirculating income into the economy as those in lower pay do.

So the policy is needed.

I would increase the cost and at lower pay.

I would add that we also need to look at the whole issue of economic rents appropriately. This (and the need to eliminate economic distortion) is what justifies a financial transaction tax.

This too is what justifies higher corporation tax charges for larger companies. The limited liability they enjoy is effectively a rent they should pay tax on.

And this would, of course, justify higher personal tax rates on investment income which, even after recent dividend and rental income changes, do in most cases have tax rates lower than those on going out to work for a living, which is absurd.

Labour is making a move in the right direction. It will need to go further though.