

Tax After Coronavirus (TACs) : Abolishing higher rate t...

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Tax After
Coronavirus
Wealth taxes

The reasons why wealth needs to be subject to additional taxation has been discussed in another [Tax After Coronavirus \(TACs\) post](#), with all links being supplied there and so it will not be repeated here.

What was also discussed [in that post](#) was that the necessary short term changes to wealth taxation fall into three groups. They are, firstly, to equalise tax rates on equivalent sources of income or allowances. Second, it is by reconsidering those things that should be taxed that are not but might be if the goal of greater equality is to be achieved, and vice versa. In other words, those parts of available tax bases subject to exemptions and reliefs need to be reviewed. Third, it is about creating a more progressive tax system by changing tax rates without challenging, as far as possible, the first objective.

Restricting tax relief on contributions to charity to the basic rate of tax

In 2012 George Osborne suggested restricting the tax relief available to any taxpayer on the gifts that they might make to charity to the basic rate of income tax. The result would have been that the higher rate tax relief on gifts to charity that those who pay tax at rates above the basic rate now enjoy would have been eliminated. The reform was rejected after much protest but it would appear timely to reconsider it.

A brief explanation is required. The government [offer this explanation](#):

If you pay tax above the basic rate, you can claim the difference between the rate you pay and basic rate on your donation. It's the same if you live in Scotland. Do this either:

** through your Self Assessment tax return*

* by asking HM Revenue and Customs (HMRC) to amend your tax code

Example

You donate £100 to charity - they claim Gift Aid to make your donation £125. You pay 40% tax so you can personally claim back £25.00 (£125 x 20%).

There are three consequences of this.

Firstly, the overall tax rate of those with wealth is reduced by a greater sum if they give to charity than is the case if a basic rate taxpayer makes a gift of the same value. That is inequitable: there is no reason why tax rates should differ for this reason.

Second, this means that those with wealth can afford to give more to charity and so direct the use of the tax relief that a charity gets towards causes that matter to them more than most people can: this also appears inequitable.

Third, charities do not directly benefit from this tax relief, and that appears to make no sense when the relief is given to support charitable giving and not to reduce the tax rate of donors.

This tax relief at higher rates is poorly designed and increases inequality. It needs to be abolished now.

That reform would not harm charities: they get the same relief either way, and it makes sense that taxpayers should be treated in the same way as well in that case. Equity does suggest as a result that reform is now timely and appropriate.