

Funding the Future

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The [Institute for Fiscal Studies](#) has issued a new report this morning which is firmly in their own tax territory and appears to make recommendations that make sense for a change.

As they note:

Concerns about how much income 'the rich' have, the activities from which it is derived, and how much tax is paid on it are central to debates about inequality. In part, this is driven by the fact that the share of income flowing to the top of the income distribution has risen and is now much higher than in the early 1980s.

As they add:

In this chapter, we use data from tax records, which provide better information on top incomes than is found in survey data, to set out what is known about who has top incomes in the UK and how much tax they pay.

The executive summary is worth sharing:

- * **The top 1% of UK adults received 15% of fiscal income in 2018-19.** This is more than flows to the bottom 55% of adults combined. The top 1% share was around 6% in 1980 and 10% in 1990.
- * The majority (65%) of fiscal income for the top 1% of adults comes from employment. (Employment generates 77% of income outside of the top 1%.) **Top 1% wage earners work disproportionately in the financial sector, which is very geographically concentrated in London.** The financial sector has been important in driving the growth in the top income share.
- * **Business income - from either self-employment or from owning and running a company - is much more important in the top 1%, and especially the top 0.1%.** It accounts for 21% (29%) of income for the top 1% (0.1%), compared with just 9% for those below the top 1%. The broad composition of top incomes has changed relatively little since at least the early 2000s.
- * The self-employed in the top 1% work disproportionately in professional services partnerships, including large legal and accountancy practices. **Mean fiscal income of a self-employed person in the top 1% is £423,000, more than 30 times the UK**

median. In comparison, company owner-managers in the top 1% have a lower income on average (£294,000), but are much more evenly spread across a range of industries.

* Taxes on UK incomes are progressive – those at the top of the income distribution pay a greater share of their (fiscal) income in tax than those at the bottom. **The top 1% of adults paid 34% of income tax in 2018-19. They paid 28% of income tax and National Insurance contributions (NICs) combined – a substantial increase from 20% in 2003-04.** Taxes are less skewed to the top when including NICs because the marginal NICs rate falls from 12% to 2% for higher-rate taxpayers.

* **Income taxes reduce post-tax top income inequality, and have done so to a larger degree since 2010.** The top 1% (0.1%) received 11% (4.6%) of post-tax income in 2018-19, compared with 14% (6.1%) in 2009-10. The fall in post-tax top income shares is in part due to policies that raised more tax from the top, most notably through a new ‘additional rate’ of income tax.

* **Average tax rates vary significantly within the top 1%.** For example, the average tax rate on wage earners in the top 1% is 42% (49% if including employer NICs). Company owner-managers will be able to access a rate of just 27% on income taken in the form of capital gains – or of 0% if the realisation of gains is deferred until death.

* **There is a strong case for aligning the tax rates on different forms of income, while reforming the tax base** so that taxes on business income do not discourage investment. This combined approach would directly improve horizontal equity, and allow more revenue to be raised from the top 1% if desired.

I have written extensively on what those reforms might be. [A collection of material on this issue is available here.](#)