

Do you have a legal right to your gross income?

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In this morning's video, I note that people like to claim they have a gross income out of which their tax is paid. But is that gross income ever really theirs when it comes with the legal obligation to pay tax attached to it, meaning that the tax owed always belongs to the government? And what does that do to the idea of taxpayer money?

<https://www.youtube.com/watch?v=gCVvEhy1O-U?si=tWt2vZw84w-p1Xcf>

The audio version is here:

https://www.podbean.com/player-v2/?i=fmgex-16b645c-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

This is the transcript:

Do you have a legal right to claim that your income before tax is yours? Or is your only legal right to claim that your income after tax is what you really own?

I think that's a really important question. And one that has to be answered if we are to truly understand the way in which taxes work.

This question was raised by two economists around the turn of the century. Their names were Liam Murphy and Thomas Nagel. I am not related to Liam Murphy, as far as I know. And they put forward the idea that we only have a legal entitlement to our net

income after tax.

Now I know most of the time, most people look at their pay slip and say, I've been paid £3,000 or whatever this month, and then groan about the amount of tax they've got to pay. But the truth is, what right do they have to groan about that tax? Because they can't get that gross income without having a legal obligation to settle the tax liability owing on it.

It's a bit like owning a car and moaning about the fact that you have to pay for a road fund licence to drive it on the road, and to have insurance. You cannot drive without those two things having been settled.

So why do you think you have an entitlement to your gross income when legally, as a consequence of getting it, you must pay tax and there is, in law, no way around that?

My point is this. I believe that we only legally have an entitlement to our net income after tax, because the payment of tax is a necessary condition of receiving the gross income. As a consequence, the money that we settled in tax was never ours. We held it in trust. We held it in trust on behalf of the government, in particular, because the government had an entitlement to it. So, we can't say it was ever our property to pass over to the government. It was always their property because they had a legal claim on it.

Now, why does this matter? Well, I think it matters because so often we hear the term 'taxpayer's money'. But if the money was never really legally belonging to a taxpayer, how can it be taxpayer's money? Because it wasn't.

The money in question always belonged to the government because it had passed laws to which we accept that we are subject, which said that money was never ours. It was always in the legal possession of the government itself.

Now we might have held it as custodian, and in the case of self-employed people, that is clearly true. A self-employed person gets their income gross, no taxes deducted, and they therefore have to settle their tax liability, in the UK at least, twice a year, once on 31st January and once on 31st July. And so it feels like the taxpayer's money is being paid over. And yet, my argument is this. That money never was the taxpayer's. It belonged to the government all along.

And if that's the case, we'll resolve this dilemma about this so-called 'taxpayers' money', because it doesn't exist at all. The government always owned the money that was owing to it. And logically, that must be true. After all, you wouldn't have to pay it if the government didn't own it. The fact that the government can claim it is only because they've passed laws that say it is theirs, which laws we have agreed to comply with.

So, this philosophical question of do we own our pre-tax income or our post-tax income

has a significant impact on the way in which we look at the way in which government is managed.

If we think the government is managing our money, they are custodian for us.

If, on the other hand, we manage their money whilst it is in our possession before we make payment of tax, we manage money on their behalf.

Which of those two is true? I think it is the second one. We have money which we hold on behalf of the government, not the government has money which they hold on behalf of us.

Now that gives rise to other questions, very clearly, about who has obligation and why. And I think the government does have obligation to us, even though they don't spend taxpayer money. Why? Because there is another relationship between us and the government, and that is the relationship between them as elected representatives and us as voters. We can hold them to account for what they do, but not because they hold our money, but because we have the democratic right to take them out of office if we so wish.

That's the real relationship that we have in a democracy. But we don't have a financial hold over them by saying they have our money, because they don't. The money was always theirs.