

Are the rich going to leave?

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In the run-up to the budget, I have seen claims that as many as one in five people are planning to leave the UK because taxes are too high. If they are, they're in for a shock. The well-off and the wealthy get a great tax deal in the UK that they're going to find hard to replicate anywhere else.

https://www.youtube.com/watch?v=9ZtZzzDaAQw&si=h82RBHv_UFeZIKAX

This is the audio version:

https://www.podbean.com/player-v2/?i=f8yw9-17028b5-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&button-skin=c73a3a

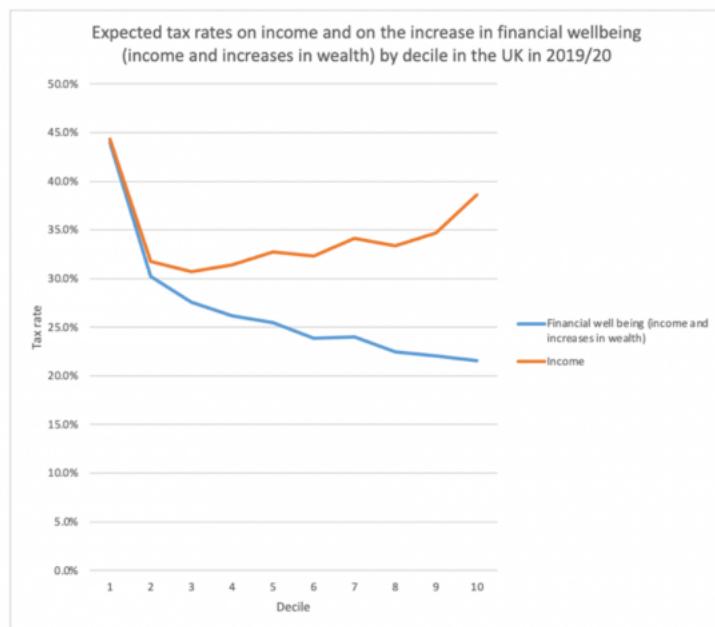
This is the transcript:

Are the rich really going to leave the UK? You would think that from all the pre-budget discussion and all Rachel Reeve's flight in terror from all the proposals that she once made to tax the rich just a tiny little bit more, that they are all going to flee if ever a single tax is raised upon them. And let me tell you. I don't believe that's true at all.

I did a lot of work on this issue when I was beginning to research the Taxing Wealth Report 2024. In that report, I suggested that the wealthy are undertaxed by £170 billion a year in the UK. Now let's be clear, I never once pretended that this £170 billion could be recovered. And, I did make clear that it was an estimate, and there were lots of

assumptions involved.

But let me become a little more precise. Have a look at this chart.



The chart is based upon information produced by the Office for National Statistics, who are the UK's National Statistical Agency, unsurprisingly given their name.

They make it as hard as possible to find most data that you want on anything of use within the UK National Statistics. It's as if they believe that hiding data from view is their sole reason for being. But when I found the information I needed, their data plus that from HM Revenue and Customs, that gave me the chance to put together this chart.

The chart is based upon information from the years 2010 to 2020. In other words, from just after the global financial crisis to before COVID hit: a decade when things were relatively stable in economic terms. And what the chart shows is two things.

The orange line is the effective tax rate on income of groups in the UK. Now, the groups in the UK are divided into deciles. In other words, taxpayers are split into ten groups of equal size. So, given that there are a bit over 30 million taxpayers, there's a bit over 3 million people in each of those deciles. And what I worked out, using official data, was what the likely effective tax rate on the income of people is in those deciles.

Now let's be clear: the incomes are not spread equally by decile. Most of those deciles, up to the 80th to 90th, are earning, well, £50,000 a year and less. It's only the top decile, the top 10%, who are earning £80,000 and more a year, and some of them, of course, earning extraordinary amounts.

But what you will see is the lowest group of income earners have a very high tax rate. It's something like 44%. But let's be clear: that's because quite a lot of their income is not taxable. They are, in a very real sense, an outlier.

For example, students pay quite a lot of tax because, well, they seem to drink quite a lot of booze and smoke quite a lot of fags, in my experience, and some other things that require the consumption of taxes, like just buying basic commodities to live. So, they pay very high rates of tax, but they don't apparently have significant income.

And they're not alone. There are, for example, nontaxable benefits, and those aren't recorded as income for this group. So, that data is a bit distorted, and I accept that. Nonetheless, what is clear is that those on very low incomes do have quite high tax rates.

Then, we go through an area where the tax rates rise very slowly.

For those who are on low incomes, the effective tax rate, the overall tax rate, including all taxes paid - that includes council taxes and VAT and national insurance and alcohol taxes and car taxes and the BBC licence fee, as well as income tax and capital gains tax, and the effective imputation of corporation tax to people, which means in other words, although companies pay it, it is assumed that somebody at the end of the day pays the burden of it - put all those things together and the overall tax rate on people on low incomes is just over 30 per cent.

And you'll see that by the time we get to the ninth decile, those people who are earning reasonable salaries in the UK, then the tax figure gets to around 35 per cent. And it goes up to about 38 per cent in the top group. And on that basis, it is claimed that we have a progressive tax system in the UK.

But, and I make the point very strongly, there is a blue line as well. The blue line represents the rate of tax paid overall on the combined income and increase in wealth of people in each decile group over this same period.

The figures are actually for 2019/20, the last year in the period, but they use the data for the whole period to work out this split between the increase in wealth and the amount of income that each group has.

Over the ten-year period that we're looking at here, the total GDP, that's national income of the UK, was something like £15,775 billion. It's a mighty great sum of money.

Over that same period, however, the increase in the wealth of people amounted to £5,773 billion. Therefore for every one pound of income that was earned over that period, wealth went up by 36. 5p. And I deliberately reduce it to that ratio of increases in wealth to income because that's a number we can comprehend.

Think about it. For every one pound you earned, your income should have gone up by

36.5p. Did it?

It's very unlikely that that was the case for you. And why can I say that? That's because probably you are not in the top 10 per cent of income earners. By definition, you are most likely in the 90 per cent of other people in the UK. And at least half that increase in wealth went to that top 10 per cent. So, when we combine the figures for income and increase in wealth, we come up with very different figures for tax.

And that's because the overall average effective tax rate over the decade for tax on income was 32.9%, roughly a line drawn straight through that orange figure. But if we look at the average rate of tax on wealth, it was just 4. 1%.

In other words, tax was only taxed at a little over 10 per cent of the rate that income was. Therefore, if we skew the rewards from the increase in wealth towards those who are already on high earnings and who are already wealthy and tax them very little, as we do, what you get is the blue line.

The overall effective tax rate on increases on income and wealth, which represent the overall increase in financial well-being arising during the period, falls dramatically as your income rises.

In fact, as you will see, at the very lowest level, there's really no difference. But once we get up to the top group, the effective rate of overall tax is around 22 per cent, which, by the way, was the rate of tax that was paid by Rishi Sunak on his last declared tax return. There is some evidence that this figure might well be right.

And that's what matters. Because people aren't going to run their overall rate of tax is so low only 22%. Because frankly, finding an equivalent rate around the world is going to be immensely difficult for anyone with wealth.

They could do it, they could go to a tax haven and suffer all the miseries of living in such places. I'm always immensely amused when I arrive in Jersey Airport, which I have done in my life, and note the fact that outside that airport there is an enormous array of very expensive cars on sale from various car dealers. You can buy an Aston Martin, a Lagonda, a Rolls Royce, a Bentley, an enormous Jaguar, whatever you wish. The top speed limit on Jersey is 40 mile an hour. What people are ever going to do with these cars on that tiny island, I don't know. The paradox of wealth is there and apparent. They might be incredibly wealthy, but they can't live in these places.

The advantage of the UK is you can live here and you can enjoy your wealth.

Now I stress, these numbers are estimates. They are extrapolations from data and the figures will of course vary. But as I've just noted, Rishi Sunak did pay tax at 22 per cent overall. So, let's be clear, the wealthy are not going to be running away because Rachel Reeves might increase their tax a little bit. That is complete and utter nonsense.

And even if a few did, let me take an example. Suppose Rachel Reeves doubled the rate of capital gains tax. Now at the moment, capital gains tax collects around £15 billion of revenue a year; tiny in proportion to the UK, because only 1 per cent of people in the UK pay capital gains tax. But suppose she doubled that rate so it was the same as the income tax rate on equivalent income. You would expect that she would earn £30 billion of revenue as a result.

Now, some people say they'll leave. And I accept their threat is real. Some people will leave. Suppose that 10 per cent of the wealthy go. Therefore, we won't get tax on 10 per cent of the capital gains that we did previously. So, she doubles the rate and collects £30 billion in theory, instead of £15 billion. But 10 per cent of people go, which means she loses £3 billion. So doubling the rate won't double the revenue. It will increase it from £15 billion to £27 billion.

Would you rather have £27 billion or £15 billion? I know what my answer would be if I was Rachel Reeves, and I know I would double the rate of capital gains tax to bring it into line with income tax and deliver tax justice as a result.

I also know that the revenue I would collect would increase. Simply, straightforwardly, as a matter of fact, it would.

And most people do not manage their capital gains to minimise their tax bill. They manage their capital gains because there's an opportune moment to make money on selling assets at a high price. That's what drives the recognition of capital gains. So, all the nonsense that we are told about the fact that if she increases tax, everybody will leave is, first of all, wrong.

Most of this group are not going to leave because their in-laws are here, their children are here and at school, their ponies are here, their clubs are here, they can't miss their golfing mates, whatever it might be, they won't be going. But also, even if some of them do, we'll still get more tax revenue.

In other words, Rachel Reeves can afford to ignore all of this, all the protestations of the wealthy right now, because they're frankly talking a load of nonsense. They have the most phenomenal deal with regard to taxation in the UK at present, and even if all the recommendations that I put in the Taxing Wealth Report were put into place, they would still be vastly better off with regard to the proportion of their incomes and increases in wealth paid in tax than most people who simply have to work for a living. They're getting a free ride at the expense of the rest of us. They know that. They're not going anywhere.