

Why are the Tories talking about flat taxes again?

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Flat taxes are great if you want to increase inequality, crush government services, or leave large numbers of people destitute. Is that why the Tories are so keen on them?

<https://youtu.be/8gKmxcw3HVM?si=VEq7i8qWxvApqw8z>

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This is the transcript:

Who wants a flat tax? It seems that Kemi Badenoch does. And I think that's a truly terrible idea.

Now, I should put my cards on the table here. I have form with flat taxation. There aren't many flat tax states in the world. In fact, a recent article produced by the [Daily Telegraph resulted in this list](#) being produced.

What countries have a flat rate on tax?		
Jursidiction	Year of enactment	Tax rate
Jersey	1940	20%
Guernsey	1960	20%
Estonia	1994	20%
Ukraine	2004	15%
Georgia	2005	20%
Romania	2005	10%
Krgyzstan	2007	10%
North Macedonia	2007	10%
Mongolia	2007	10%

And you will see that there are on that list not many countries shown.

Right at the top of the list are Jersey and Guernsey, in the Channel Islands, which are part of Great Britain but which are not part of the United Kingdom. And they have had a flat tax since 1940.

What happened in 1940 in Jersey and Guernsey? They were occupied by the Nazis. This is the legacy of Nazi rule in those places. They still have a flat tax of 20%, which was even the rate that was introduced in 1940.

Then look further down that list, and what you will notice is that, with the exception of Estonia, which got a flat tax in 1994, most of the others are Eastern European states who got flat taxes between 2004 and 2008, at which point, I was doing a lot of work around flat taxes, sometimes cooperating with international organizations on doing so, including the International Monetary Fund.

Frankly, my aim at that time was simply stated. I was trying to prevent the spread of flat taxes. So let me explain what's wrong with these things.

Flat taxes sound simple and people love the idea of flat taxes. What they say is we should have a single income tax rate.

Call it 20 per cent if you like because that's the standard rate of income tax in the UK at present.

And then they say, we should have a standard rate of VAT, which should be 20%, which happens to be the standard rate of VAT in the UK at present. It looks as though we're heading in the right direction.

And then they would say, let's have a standard rate of capital gains tax. Make it 20%, they'd say, even though they have to date been terribly reluctant to make the rate of capital gains tax the same as the rate of income tax.

And they would want to make the rate of corporation tax 20%.

Do you get my idea now? Now let me start to explain the problems.

If we had a 20% rate of income tax in the UK, there would be no higher rate tax paid. That's a simple, straightforward statement of fact, but as a consequence, £100 billion of tax revenues would disappear.

If we had a 20 per cent rate of corporation tax, I think maybe 20 per cent of all corporation tax revenues would disappear. That's another £15 to £20 billion, depending on how things go in the next couple of years that might disappear.

If we had a 20 per cent rate of capital gains tax, given that the rate has just increased,

then we would lose some revenue there as well. £4 or £5 billion a year.

Make inheritance tax 20 per cent and we would halve the recovery on that. Chuck away another £4 billion a year.

Can you see how things are beginning to look expensive when it comes to this tax.

Now there are ways around that, the people who promote flat tax would say.

For example, they could say on VAT, well there are lots of exemptions and allowances now, and they include zero rate VAT, and the VAT. exempt rate.

Zero per cent VAT is the rate of tax that is charged on food.

There's a 5% rate of VAT, which is charged on the fuel and energy that we supply for use in our houses.

There's an exempt rate of VAT on rents and quite a lot of other things, funerals, for example.

The point is the flat tax exponents would say no, there should be one rate of VAT. It should be 20% on everything, and that would maybe recover £100 billion of VAT.

But who would benefit? And who would lose from these changes?

£100 billion of income tax would not be paid by those who are earning over £50,000 a year, and most especially by those who are earning well over £100,000 a year. The wealthy would, in other words, win hands down with a flat tax.

Who would pay that extra VAT? That would be paid by those on the lowest incomes. How do I know? Because they have the highest proportion of their expenditure incurred on things like food, and domestic energy, and rent. So they would lose out badly to compensate the rich.

Alternatively, if this levelling up of all rates to one level, with the rich gaining enormously and the poorest in our society losing badly, did not take place, we would instead have to do something quite radically different. And that would be to cut out well over £100 billion of government expenditure if Kemi Badenoch remained dedicated to the idea of balancing the books, which I presume she will because she's as thoroughly neoliberal as Rachel Reeves. And in that case, something big has got to go.

Something as big as education, for example.

Something as big as all of social care and quite a bit of housing policy.

You could throw out quite a lot of defence and that wouldn't actually cover the saving

that is required.

This is the sort of scale things that would have to disappear to save over £100 billion a year, which would be necessary to make this work.

And let's be clear, the claim by those who promote flat taxes is that if we just allow the wealthy to have more of their money, first of all, they spend more into the economy, and therefore, that wealth will trickle down to those who are on lower incomes because they will have more to spend, and therefore stimulate the economy to provide work for all those who haven't got the initiative to create it for themselves. So goes the story of trickle-down economics.

And that is nonsense. The people with wealth in this country save already, despite the tax rates that they're paying. If they have more income, they won't necessarily consume more, because they've already got enough. They will instead save more. The chance that there will be trickle-down is incredibly remote, and history has shown that trickle-down simply doesn't happen.

Secondly, it's argued that there will be a boost in employment because there will be lower taxes, but the differences with regard to corporation tax are very small - insignificant - and will make no net impact at all on whether or not people want to start businesses or otherwise. In other words, nothing much would change there.

And those who argue that the flat tax states on that list that I showed earlier, the Eastern European states, all flourish as a result of flat taxes, miss something quite fundamental, which is that basically all the Eastern European states who adopted flat taxes early this century did so either when they were coming out of the Soviet bloc and were establishing their own independent economies for the first time, or were recovering from war in the Balkans, which had been pretty devastating.

Yes, they enjoyed growth at that period, but that wasn't because of flat taxes. That was because their economies finally had a period of stability in which they had a chance to do something when previously they'd either been on war footings, or simply oppressed. So, the fact is that flat taxes have never boosted the economies of everywhere, including, by the way, Guernsey and Jersey, where local people suffer really badly from poverty in those economies, because the flat taxes are designed to boost their use as tax havens.

Flat taxes are a simple, straightforward way of achieving two goals.

One is to crush the size of government, to reduce the services it supplies to people who really need them.

And the other is to make the wealthiest in our society richer at cost to those who haven't got the funds, spare to provide to those with wealth, but who will have to do so

if they wish to enjoy the services they've had in the past.

Flat taxes are designed to be penal.

They are penal.

They're destructive.

They harm the economy.

They will harm the nature of society itself.

They're even anti-democratic, because the assumption behind them is that actually, not everybody does have an equal voice because the idea of progressive taxation, which is the alternative to flat taxation, is that everybody should pay equally according to their means. And the opposite is flat tax, which does not assume people pay equally according to their means, but that everybody should have the opportunity to put aside more for themselves as they get wealthier - the complete opposite.

This is a disastrous policy idea, but exactly the sort of thing you'd expect the Conservatives to flirt with.

It could happen, but if it did, it would be a disaster for the UK.