

Funding the Future

The UK tax system is deeply regressive when gains are t...

taxresearch.org.uk/Blog/2025/04/14/the-uk-tax-system-is-deeply-regressive-when-gains-are-taken-

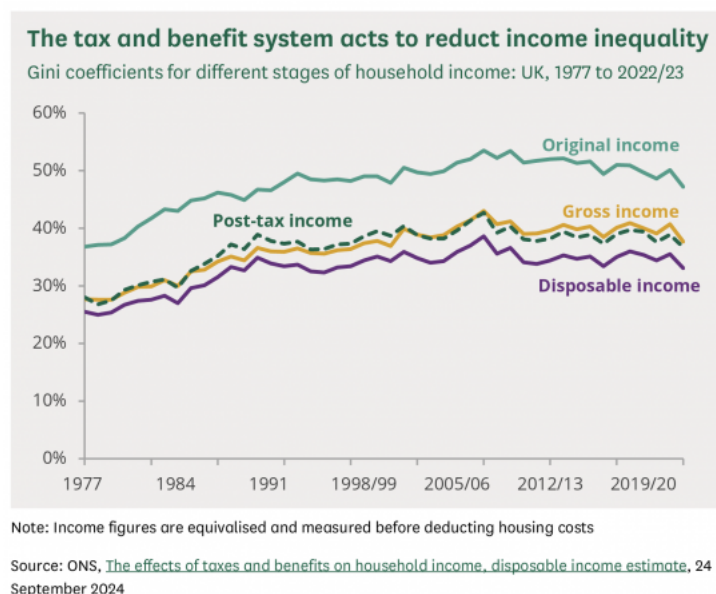
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Clive Parry [posted this comment](#) on the blog this morning:

As you know, I support all your suggestions in the Taxing Wealth Report.

However, I don't understand the chart. Maybe I am just not understanding because I can't get my head around the fact that tax in the UK does not reduce inequality. I assumed it might not be doing enough but surely it does something... except the data say no. I am confused.

The comment was made in response to my posting this chart from the Office for National Statistics / House of Commons Library on the UK Gini coefficient:



Let me offer an explanation. It comes from the Taxing Wealth Report 2024. [In a summary post](#) on its website I noted that:

This report suggests that, based on a review of taxes paid, UK [national income](#) and

changes in UK wealth from 2011 to 2020:

- * The UK has a [tax system](#) on income that is regressive at the lowest levels of income, broadly flat over the middle range of UK incomes, and is only slightly progressive at the upper end, without however replicating on highest incomes the tax rates paid by those on lowest income.
- * Has a very generous system of taxation on wealth that means that whereas income was on average taxed at 32.9 per cent over this period, increases in wealth were only taxed at 4.1 per cent.
- * The combined average tax rate on income and increases in wealth over this period amounted to 25.6 per cent per annum.
- * Because of the way in which wealth is distributed in the UK, with most being owned by the top ten per cent of the population, this differential in tax rates means that the UK actually has a deeply regressive tax system.
- * Those with lowest income in the UK were likely to have a combined tax rate on income and increases in wealth of approximately 44 per cent per annum during this period whilst those in the highest decile of earners in the UK were likely to pay no more than 21.5 per cent per annum on their combined income and increase in wealth.
- * If the tax rates on income and increases in wealth were equalised then additional tax revenue of £170 billion a year might be raised in the UK as a result.

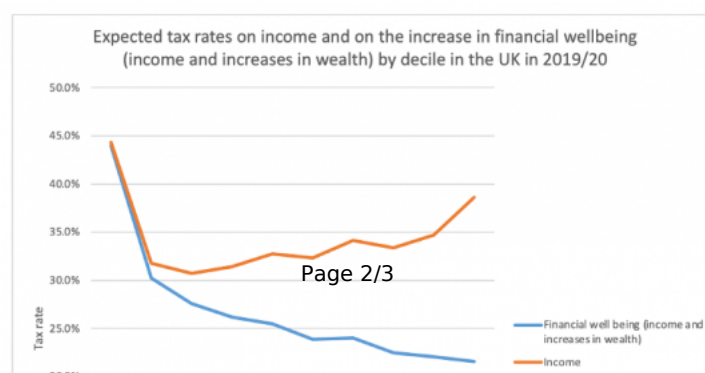
What this suggests is that:

- * There is significant additional capacity to tax in the UK, although only from those with most income and wealth.
- * A strong case for reducing the tax paid by those on lowest incomes can be made.
- * On balance, so long as additional sources of tax revenue are charged only (or almost entirely) on those with the highest income in the UK then there is no reason for any UK government or political party seeking power to suggest that there is no additional capacity to tax in the UK: that capacity very clearly exists.

The Taxing Wealth Report will explore about thirty ways in which this additional revenue might be raised in ways consistent with these findings.

The unfair UK tax system

The following chart suggests the true scale of the regressivity of the UK's tax system:



Those in the lowest decile of income earners in the UK pay tax at around 44% on their income and gains in financial wellbeing, whilst those in the top decile pay at 21.5%, less than half that rate. That is why there is capacity to raise more tax from wealth in the UK.

The [**full report that supports this note**](#) is available here.

As the orange and blue lines show, we might be mildly deceived into thinking that the UK tax system is just a little progressive, but that is only because it ignores the taxation of wealth, which creates wildly regressive outcomes, meaning that overall levels of taxation on the combination of income and gains falls steadily, and dramatically, as total income (and both income and gains contribute to total income) increase in the UK. I suggest that this helps explain the Gini outcome.