

My View on ... Tax

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This post is part of an ongoing series in which I set out my views on significant issues in economics, political economy, politics, taxation, and accounting. It should be read in that context. It provides an overview of a position that I have developed over many years of writing and analysis, rather than a comprehensive treatment of the subject.

In this particular case, my thinking is developing rapidly. As a consequence, think of this article as the foundation for what might become a series.

If you would like to explore these ideas in more detail, the reading list at the end of this post provides a good place to start. The whole View On series is [available here](#).

Tax is one of the few things almost everyone in this country thinks they understand. We pay it on our wages, on what we buy, on our homes and on our savings, and we are told by politicians of every party, and by almost every journalist who writes about the subject, that the money we pay is collected so that the government can spend it on our behalf.

That story is so familiar that it is rarely questioned, and yet it is wrong. A government that issues its own currency, as the government of the United Kingdom does, does not need our money before it can spend, because it creates the money it spends.

That does not make tax unimportant. It makes it more important, because once we stop pretending that tax is the government's income we are forced to ask what tax is for,

and the answers to that question shape almost every aspect of the society we live in.

In what follows, I want to explain first why tax cannot fund government spending, then what tax does instead, and finally why the way we think about it matters for our democracy as much as for our economy.

The story we have been told

The conventional account of tax is the household account. The claim is that a household earns and then spends. If it wants to spend more it must earn more or borrow, and if it borrows it must repay. All of that is true.

When applied to government, that logic says that tax is the government's earnings, that borrowing fills any gap, and that every pound of public spending must first be taken from somebody else. It is the logic behind every claim that we cannot afford social security, that the NHS must wait, or that a tax cut must be paid for by cuts elsewhere. It is also the logic that underpins the phrase "taxpayers' money", which politicians use as if it described something real.

The problem for those making this claim is that their logic does not hold true. A government of a country is nothing like a household. A household has no bank of its own. The government does, and that difference is fundamental.

When the UK government spends, it instructs the Bank of England, which it owns, to make the payment, and the Bank does so without first checking whether there is a tax payment or borrowed funds sitting in an account to cover it. In effect, the government runs an overdraft with its own central bank, and the money it spends is created as that payment is made.

There is, as a result, no pot of taxpayers' money from which ministers draw. There is only government money, spent into existence by a government that has the legal authority to create it. Critically, the government can spend without having raised revenue or borrowed before doing so.

Why tax cannot come first

The simplest way to see this is to ask where the money we use to pay our tax comes from. If the government did not first spend pounds into the economy, there would be no pounds with which to settle a tax bill. The sequence must, then, run in the opposite way to the one we are told. The government must spend before it taxes. It never taxes and then spends.

What happens when we pay is equally revealing. When a tax bill is settled, the taxpayer's bank makes a payment to the government through the Bank of England, and that payment cancels money the government created when it spent.

Commercial bank lending works in a similar way. A loan creates new money when it is made, and that money disappears when the loan is repaid. Tax does the same for government money. It does not fill a bank account for ministers to spend from later. It reverses the money creation that government spending began, and once it has done so the tax paid funds nothing at all.

I am aware that this explanation is hard to accept when it is heard for the first time, because most of us have been told the opposite all our lives. I have described the moment when a person first hears this as something like a Galileo moment, when what everyone could see turns out to have been understood the wrong way round. But once the mechanics are clear, the conclusion is unavoidable. Tax does not fund government spending, and everything about the way government payments are made confirms it.

What tax does instead

If tax does not fund spending, the obvious question follows. Why tax at all?

My answer, which I first set out in my book *The Joy of Tax* more than a decade ago, and have developed many times since, is that tax has six purposes, none of which is to pay the government's bills.

Tax gives the currency its value because the government accepts it in settlement of tax bills.

It reclaims the money the government has spent, which is how inflation is controlled.

It redistributes income and wealth.

It reprices goods and services that markets price wrongly.

It strengthens democracy by tying citizens to the state.

And it is a deliberate tool for steering the economy towards the ends a society chooses.

I have listed these in different orders at different times, but the substance has not changed, and each deserves explanation.

Giving money its value

The first purpose sounds the most obscure, but it comes first for a reason.

The government requires that tax in the UK is paid in pounds. Because each of us, and every business, owes tax in pounds, we need pounds, and almost no one will run the risk and cost of trading in one currency while owing tax in another. The result is that sterling becomes the money used for transactions in this country, not just because the

law calls it legal tender but because the tax obligation makes it the currency everyone needs.

This is how tax gives money its value. A currency is worth something because its issuer demands it back in settlement of a real and unavoidable obligation. Take that obligation away and the principal reason anyone needs the government's money goes with it.

Tax does not just operate within an economy that already has a trusted currency. It is part of what makes that currency worth trusting in the first place.

Reclaiming money and controlling inflation

The second purpose is the one I regard as the most important in macroeconomic terms. Government spending puts money into the economy. If none of it was ever taken back, there would in time be more money chasing the goods and services the economy can produce, and prices would rise. Tax does then reclaim part of what was spent to keep total demand in line with what the economy can supply.

This changes the question we should ask about public spending. The limit on what government can do is not the size of its tax take. It is the real resources available, such as the people, skills, materials and productive capacity, that exist at any moment. Tax is one of the tools used to keep spending within that limit.

Seen in this way, tax also creates room for public services. By withdrawing spending power from the private sector, tax makes space in the economy for the state to provide health care, education, defence and social security without that provision pushing up prices. That is not the same as funding those services, but without that space they could not be supplied on the scale we want.

I also think tax is a far better tool for managing inflation than the interest rates that central bankers prefer. Interest rates act slowly, and they have no power over many of the causes of inflation, as the supply shocks that followed the pandemic and the war in Ukraine demonstrated. The amount of money that tax draws out of the economy is how government decides whether the economy grows too fast or too slowly. That balance is the heart of macroeconomic management, and it is tax, and not the Bank of England's base rate, that does the work. That the prevailing inflation rate in the UK and many other countries has been remarkably stable over time is proof of just how good tax is at achieving this goal, without almost anyone noticing.

Redistributing income and wealth

The third purpose of tax is to redistribute income and wealth.

Markets do not produce fair outcomes when left to themselves. They reward inherited advantage, market power and luck at least as much as effort, and because those who own assets can use them to acquire more, markets concentrate wealth, and the income

that flows from it, in ever fewer hands. A society that wants everyone to have the chance to realise their potential cannot leave that distribution to market forces.

Progressive taxation is how a democracy corrects the imbalances that markets create. There is a link here with the second purpose, because much of the excess consumption that threatens inflation is by those with the highest incomes and the greatest wealth, which makes them the obvious people to tax when demand must be restrained.

That is why I have argued that we need to tax the wealthy because they are wealthy. Excess wealth is a problem in itself. It stifles an economy, it distorts markets, and, as I will come to, it corrupts democracy. At the same time, the tax system we have does too little about any of this. Many people on low incomes pay little income tax but pay proportionately high amounts in VAT and council tax, both of which are regressive, while those with most wealth use companies, capital gains, allowances and loopholes to reduce what they pay. The claim that the rich already pay most of our tax looks only at income tax and ignores everything else.

Pricing harm honestly

The fourth purpose is to reprice goods and services.

Prices send signals, and when something is underpriced relative to the harm it does, whether to health, to communities or to the environment, people consume more of it than is good for them or for anyone else. Tax can correct that.

We already do this with tobacco, alcohol and fuel, and I think we should do much more of it, taxing pollution, speculation and the excess profits of monopolies more heavily than we do now. Used in this way, tax is not a punishment. It corrects a price that was wrong before the tax was applied.

The same logic works in the other direction. Tax can encourage what we want more of, through reliefs for investment, education, care, health and the green transition.

It follows that some of our present choices make little sense. We tax work heavily through national insurance when we want more work, which is why the recent increase in employers' national insurance was a serious mistake.

This should also make us wary of the fashion for hypothecated taxes, where a new levy is proposed to pay for a particular service. We should tax harmful things because they are harmful, and not because we have persuaded ourselves that the revenue must fund something good. A hypothecated tax concedes the whole household argument, which is a fundamental mistake when it comes to taxation.

Tax and democracy

The fifth purpose is political. Tax links citizens to the state. We vote once every few

years, but we pay tax every day, in the form of VAT or other sales taxes on what we buy, through our wages and through our homes, and people who know they pay tax want to know what government is doing and expect it to answer to them.

Those who are aware that they pay tax appear more likely to vote. The old principle of no taxation without representation works both ways. A government that must ask its citizens for tax, publicly and by law, and explain why, is kept in a continuing conversation with the people it serves in a way that a government issuing money into a vacuum would not be.

I have also described tax as the consideration in the social contract, the payment that marks our side of the relationship between people and state.

That is why I regard secrecy jurisdictions, which most people still call tax havens, and the tax avoidance industry that works through them, as an attack on democracy and not just on the public accounts. Those who work to escape tax withdraw from the social contract while continuing to enjoy what it provides. A society that tolerates that cannot claim to value fairness, and a democracy in which the wealthiest can opt out of their obligations becomes a marketplace for influence.

Steering the economy

The sixth purpose is to act as a deliberate tool of economic management. This is different from the background task of withdrawing spending power to control inflation. It is the active decision to raise or lower taxes, alongside changes in spending, to steer the economy through a particular moment, to cool it when it overheats and support it when it falters, and to move it in the direction a society has chosen. I have described tax as the economy's steering wheel. It is not the fuel tank, and it is not a piggy bank. Tax and spending through government money creation are the two levers of fiscal policy, and neither makes sense without the other.

This is where tax becomes the means by which a democracy plans. We could tax land speculation, monopoly profits and rentier income more heavily. We could provide more support for care, housing and green investment. Each of those is a choice about what kind of economy we want, and tax is how that choice is made real. Every decision about who to tax, what to tax and how much to tax should be judged against these six purposes. The question is not how much a tax will raise. It is whether it manages demand well, makes the distribution of income and wealth fairer, prices harm honestly, strengthens the link between government and people, protects confidence in the currency, and moves the economy where it needs to go.

Where our incomes come from

There is one further part of my answer to the question of what tax is, and it concerns our incomes. The most common complaint about tax is that it is my money, so why

should the government take it? The mistake in that complaint is one of timing. It assumes that income is created privately first and that the state arrives later to take a share. The reverse is true.

Before anyone can be paid, there must be money that is accepted everywhere, contract law that makes employers pay, employment rights that define what work is, property rights that protect what we earn, and courts to settle disputes. There must be the roads and railways we travel to work on, the education that trained us, the health care that keeps us fit to work, and the police who protect our transactions. All of these come from the state, and many of our jobs exist only because government is by far the largest customer in the economy.

So yes, we work for our incomes, and our effort and skill matter. But that income is made possible by a system the state created, and tax is the return of part of the money and value that the state put there.

The same is true of companies. As an accountant, I have argued for many years that tax is not a cost of doing business in the way that wages or raw materials are. It is shown in a company's accounts after profit has been calculated, alongside dividends, because it is a distribution of that profit to the society that grants the company its right to trade. Nobody, whether a person or a company, earns anything alone. Tax is the acknowledgement of that fact.

Objections to seeing tax this way

The first objection is the one I am asked most often, and it comes from people who are sympathetic to public services. If tax does not pay for the NHS or for schools, what reason do I have to pay it willingly? The belief that my tax funds those services gave me a personal stake in them. Break that link, the argument goes, and people will ask why they should pay tax at all, and the next step is a politics that promises to abolish it.

I take this seriously, because the fear behind it is real. But the direct link the objection wants to protect never existed, and what replaces it is not a weaker reason to pay tax but a stronger one. When I pay tax, I contribute to managing the whole economy so that it works for everyone, which is a larger thing than paying towards one service.

The consequences of abolishing tax would also be severe. Without it, the pound would lose the obligation that gives it value, inflation would go unchecked, inequality would widen without restraint, and the tie between citizens and state would weaken. No party proposes abolition, because each knows that a state without tax would fail, and failed states are terrible places to live.

The honest case for tax is that it makes a civilised society possible, not that it pays a particular bill. Nor does that case mean that everyone should pay as much as possible. No one should be taxed into poverty, and the burden should fall on wealth, land rents,

unearned income and monopoly power, and not on those living just above the level of social security.

The second objection is a technical one, made by people who have looked at the public accounts. Over many years, they point out, government spending and tax receipts have moved closely together, and most spending looks like tax being recycled, with borrowing making up the difference. Whether we say that tax is cancelled and new money created, or that tax is collected and spent again, the effect is the same, they say, and so the distinction is a matter of words. Some add that council tax does fund local council spending, and that in devolved governments revenue does have to come first as they cannot create the money they spend. The case I am making is, they say, semantic and not real.

There is a point here, but it misses what matters. The two descriptions are not equivalent, because they lead to opposite policies.

If tax funds spending, the size of the tax take becomes the limit on what government can do, and every proposal meets the question of how we will pay for it.

If spending comes first and tax reclaims money afterwards, the limit is the real capacity of the economy, and the questions become whether resources are available and who should bear the tax.

The first view gives us austerity. The second shows that austerity was never necessary.

As for local and devolved taxes, councils and devolved governments do not issue currency and so are in a different position from the UK government, but most of their spending comes from central government funds created in the way I have described, and council tax behaves more like a banded charge on property than like the core of the national tax system.

The third objection is that this way of thinking is dangerous, because it tells governments they can spend without limit. If tax does not fund spending, what stops a government from creating money until inflation runs out of control? Critics of modern monetary theory make this argument often, and they point to countries where that has happened.

My answer is that nothing I have said implies spending without limit, and that the objection mistakes where the limit lies. The constraint on government spending is the availability of real resources. Spending beyond that point would cause inflation, and no one wants that. That is why the second purpose of tax matters so much, because it is the means by which government withdraws spending power to keep demand within the economy's capacity. Far from ignoring inflation, this understanding of tax puts inflation control at the centre of fiscal policy, where the household view hides it behind talk of balanced budgets and debt. A government that knows its taxes cancel money it has

created is better placed to manage inflation than one that believes it is balancing its books like a family.

Conclusions

Tax is not the government's income. A government that issues its own currency spends first and taxes afterwards, and the money we pay in tax cancels money that the government previously created. Anyone who tells you otherwise, however senior, is repeating the household myth.

What tax is, then, is a set of tools with six purposes. It gives our currency its value. It reclaims money to control inflation and to create space for public services. It redistributes income and wealth. It reprices what markets price wrongly. It binds citizens to the state and keeps government answerable to us. And it lets a democracy steer its economy towards the society it wants. Every tax decision should be judged against those purposes, and never against the false question of how much a tax will raise.

Tax is also the recognition that none of us earns alone. Our incomes rest on money, law, infrastructure and public services that the state created, and tax returns part of that value. It is not theft, and it is not a cost. It is the price of civilisation, and paying it is how we say that we are all in this together.

The problems we face are not caused by tax. They are caused by the absence of tax justice. The wealthy are undertaxed, those on low incomes pay too much through regressive taxes, and politicians hide behind the claim that we cannot afford what we need. We can. What we lack is honest debate about who should be taxed, on what, and why, and that debate begins with understanding what tax is. Until our politicians understand it, they will keep asking the wrong question, and the rest of us will keep paying for their mistake.

Reading list

Post

Date

What it covers

[There is no such thing as taxpayers' money](#)

27 September 2026

Explains how government spending creates money and tax cancels it, why there is no pot of taxpayers' money, and the roles tax plays in inflation control and democracy.

[Taxation](#)

5 July 2026

Essay in the politics of care series setting out what taxation is not for and the six purposes it serves, including its role in giving the currency value.

[Tax does not fund spending](#)

2 March 2026

Video transcript on the six real purposes of tax, including making space for public services, repricing harm and building citizenship.

[Tax is not theft](#)

18 December 2025

Answers the “it’s my money” argument by showing that income depends on money, law, rights and infrastructure the state creates first.

[Where does the money go when the government spends — and when it taxes?](#)

30 October 2025

Traces the accounting of government money creation and its cancellation by tax, and why the balance left in the economy is a policy choice.

[The moral case for tax](#)

24 October 2025

Argues that tax is the price of civilisation, that no wealth is created alone, and that avoidance and secrecy jurisdictions erode democracy.

[Tax as the economic steering wheel](#)

15 August 2025

Presents tax as the steering wheel of the economy rather than its fuel tank, and as a better inflation control tool than interest rates.

[The government still insists tax funds government spending - and it doesn't](#)

22 July 2025

Explains that spending is financed by central bank money creation and shows how the belief that tax funds spending leads to austerity.

[MMT: Magic, myth or reality?](#)

22 June 2025

Sets out the Modern Monetary Theory account of tax as the withdrawal of money created by spending, and engages with critics who see this as a distinction without a difference.

[There are six reasons to tax and none involve funding the government](#)

5 August 2024

Explains how requiring tax in sterling makes the pound the currency of the

economy, and how tax cancels money to control inflation.

[There is no such thing as taxpayers' money](#)

1 August 2024

Compares the cancellation of money by tax with the repayment of bank loans to show why government never spends taxpayers' money.

[Tax the bads](#)

13 June 2024

Makes the case for using tax to price in harms such as sugar and carbon so that behaviour changes.

[There are six reasons why we need taxes](#)

7 May 2024

Short statement of the six reasons to tax, including tax as the consideration in the social contract and its link with voting.

[The political economy of money and tax](#)

27 January 2024

Foundational essay on why money and tax cannot be considered separately and why tax cannot fund government expenditure.

[Is tax theft?](#)

21 April 2023

Responds to the claim that tax is theft by placing tax within the social contract and democratic sovereignty.

[We need to tax the wealthy because they are wealthy](#)

22 March 2021

Argues that excess wealth is a problem in itself and that redistribution through tax is justified by the harm that inequality does.

[How money is destroyed](#)

4 August 2020

Explains the mechanism by which tax payments cancel government created money rather than filling a Treasury account for later spending.

[Labour really has to understand that hypothecated taxes undermine the very logic of its own political reason for being](#)

23 August 2018

Warns that hypothecated taxes accept the household view of government, while endorsing taxes on harmful activity for their own sake.

[The Treasury admit that tax does not fund government spending - as modern monetary theory suggests](#)

25 July 2018

Analyses Treasury correspondence acknowledging that government creates money when it spends, supporting the case that tax does not fund spending.

Tax is not a cost

9 May 2011

Foundational accounting argument that corporate tax is a distribution of profit to the society that grants a company its right to operate, not a business cost.