

# Ministers reject tax cut for wealthiest earners

A bitter political fight has broken out in the UK over how much tax the country should take from the piggy banks of its top earners. Public opinion says 'tax the rich' – but might this damage the economy?

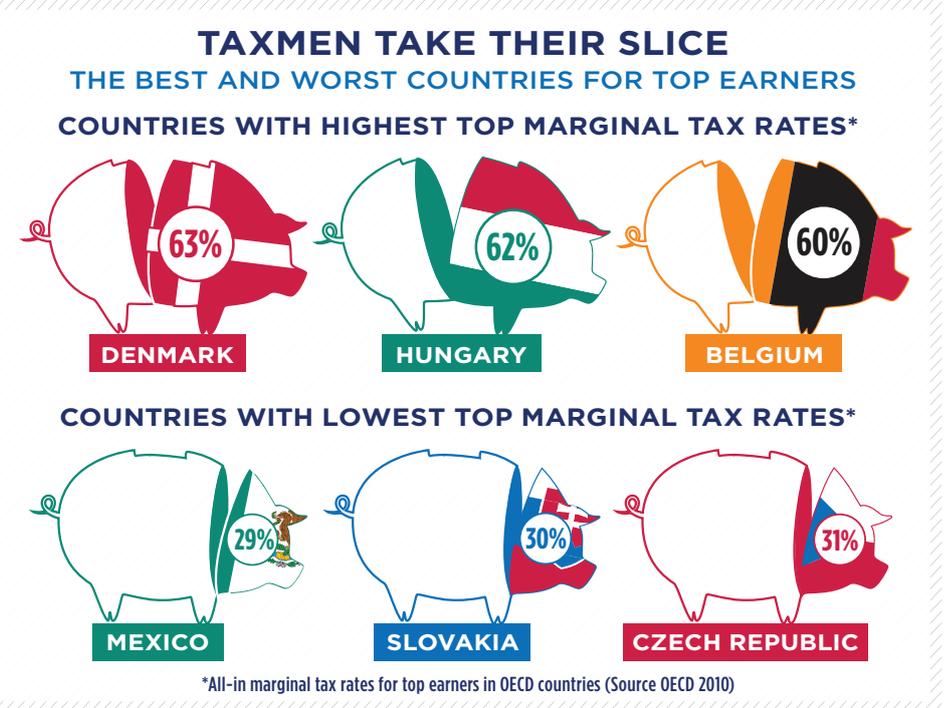


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**H**ow much tax should the richest people pay? It's a hotly contested question, which is causing renewed controversy in the UK after a group of top economists called for a cut in the top marginal rate of income tax.

At the moment, anyone who earns more than £150,000 per year pays 50p in tax for each pound they receive above that threshold. This '50p rate' was introduced after the financial crisis of 2007 as a temporary measure – under the old system, no one paid more than 40p for each pound. This week, however, a group of 20 top economists wrote a letter to the *Financial Times* to call for the 50p rate to be abandoned.

The 50p rate, they argued, makes the UK 'less attractive' for companies, investors and executives and discourages hard work. In fact, they claimed, the high tax rate probably doesn't even make the government any money. By driving high earners away from the UK, and by



encouraging tax avoidance, the 50p rate is reducing total revenue. 50p is a bigger slice than the old rate of 40p, but it's being taken from a smaller pie.

But, within hours of the letter's publication, politicians of all parties were lining up to disagree with the economists' argument. A Liberal Democrat MP said cutting the tax would be 'phenomenally immoral'. Shadow Chancellor Ed Balls said opponents of the 50p rate were 'not living in the real world'. He told the BBC that the top tax rate does raise money – over £1 billion per year according to official predictions.

Conservative ministers agreed that the 50p rate should stay for now. But Chancellor George Osborne has said that the tax is 'very uncompetitive internationally' and promised it will not be maintained for too long.

For governments struggling to pay their bills, this question of tax is an old problem. Put rates too low and you fail to

collect enough income from your economy. But if rates are too high, the economy itself shrinks, causing poverty all round. The trick is to find the sweet spot between the two extremes.

## FAIR TAXES

Politicians and economists disagree about where this spot might be. Fundamentally though, opinions on tax are as much about principles as practicalities, driven by underlying moral views. Supporters of higher tax tend to think that wealth should be shared, and that the rich should pay more than the poor. For them, the 50p tax is a matter of fairness as well as economic good sense.

Supporters of the lower rate disagree. They say that the rich have earned their higher salaries by working better and harder. There is no reason, they argue, why success and wealth should be penalised through higher tax.

## Q & A

**Q So rich people pay more tax than the poor?**

**A** In theory yes, although some very rich people are quite good at paying as little tax as they can. The general idea is that taxes should be 'progressive'.

**Q Meaning what?**

**A** Progressive taxes are more expensive for

the rich than for the poor. Regressive taxes are the opposite – where they cost poor people a greater share of income than they cost for the rich.

**Q Any examples?**

**A** Income tax is progressive because the rates go up as your income increases. VAT and other consumption taxes are regressive because poor people buy more consumer

goods (on which VAT is charged) relative to their incomes.

## SOME PEOPLE SAY...

**'If you've earned your millions, why should you pay them to the taxman.'**

**WHAT DO YOU THINK?**