

## [Common Error No. 15](#) [1]

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### 15. "The top rate of tax should be raised so that the rich pay more."



Higher tax rates do not necessarily mean that people pay more, or that more revenue is raised. It depends on other factors, including the total amount of money being taxed. It's all very well for politicians to talk of how they'd spend the extra money derived from raising the top tax rate to 50 percent, but the chances are that less money would be raised, and that they'd have to cut back on spending instead.

Higher tax rates have two important effects, among others. They make it worthwhile for people to avoid them by employing accountants to minimize their tax exposure via tax shelters, or to evade them by simply not declaring income and dealing in cash where they can. The former is legal, the latter criminal, but both mean a smaller tax base to levy the new rate upon. Both are encouraged by higher rates, and made less worthwhile at low rates.

The second effect is that earners have less incentive to work more. If they keep only half of any extra they earn, this is less of an incentive than if they can keep 60 percent. Extra effort and risk become less worthwhile, and people do less of them. Leisure, which costs you the money you could have earned by working instead, becomes cheaper and people take more of it. Some high achievers move abroad to escape the higher rates, and all of this makes the tax base smaller.

In fact well-judged tax cuts result in more revenue, and in the rich paying a larger share of the total. They pay at a lower rate, but pay it on more money. This happened in both the US and the UK with the 1980s tax cuts. The top earners ended up paying a higher proportion of the total tax take, and more revenue was raised.

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