

[The 50p tax must go](#) [1]

Written by [Sam Bowman](#) [2] | Friday 16 March 2012



The Guardian [reports](#) [3] today that George Osborne is "poised" to scrap the 50p tax in this Wednesday's budget:

Government sources say that from the outset the chancellor has seen a cut in the 50p rate as the headline-grabbing measure of the budget, and views it as the simplest single step he can take to show his commitment to an enterprise economy... The chancellor has, sources say, been intellectually persuaded of the case for a cut in the top rate, a move that will endear him to the Tory right.

There's no point in counting unhatched chickens, but if this is true, it is superb news. For one thing, the 50p tax hasn't even done the job its supporters claimed it would ? it seems to have lowered tax revenue. The Institute for Fiscal Studies (the gold standard for this sort of thing) [says this](#) [4], as does the Treasury itself. Absurdly, the 50p tax rate's defenders justify it on moral grounds, as if high taxes are a necessary punishment for the crime of creating a lot of wealth.

Mind you, reducing the government's tax income is a good thing. The problem is that the 50p tax does that by making everyone else poorer. As [our report last year](#) [5] showed, the 50p rate is a drag on growth. The 50p tax base is very small, at around 320,000 people, or 1% of the total number of taxpayers. But those 50p taxpayers are also extremely productive and valuable: that 1% pays around 28% of total tax revenue.

Squeezing a narrow base of highly wealthy people is a dangerous game. As our report showed, the 50p rate was driving high income earners abroad and into early retirement. Who can blame them? If the government was taking more than half of my income (when other taxes are taken into account) and I could afford to throw in the towel to spend more time with my family and friends, I would too. The upshot of that is that the rest of us lose their talent for wealth creation. No wonder job creation is so weak right now ? the 50p tax smothers precisely the people we're depending on to start and invest in new businesses.

Getting rid of the 50p rate is critically important to revive growth in the UK. If the Guardian's report turns out to be true, I'll be happy (and not just because we at the Adam Smith Institute called it last year). It'll mean better prospects for everyone.

Oh, and there was one other part of that report that caught my eye: "In return for supporting the measure the Lib Dems are pressing for a large increase in the personal allowance for those in work." If coalition means Tory-led tax cuts for the rich and Lib Dem-led tax cuts for the poor, then who knows? Maybe the future isn't as gloomy as we think.

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