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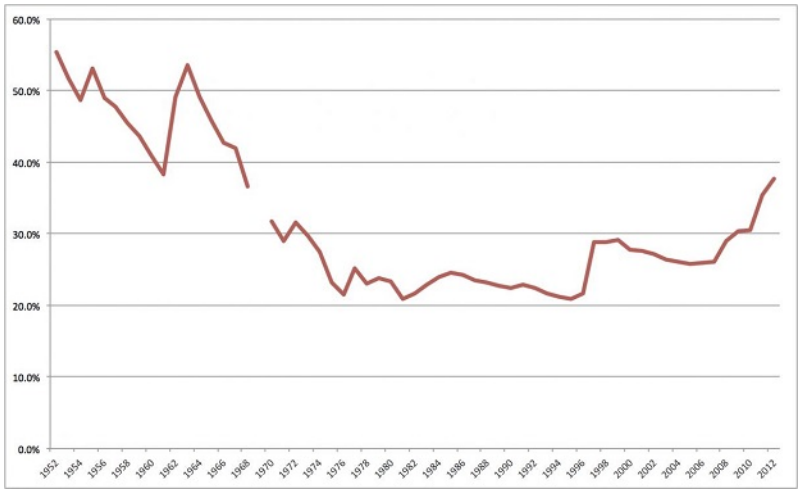
The blinding obviousness of raising the personal allowance for income tax [1]

Written by **Tim Worstall** [2] | Saturday 6 April 2013

Madsen tells us why we should be supporting raising the personal allowance [3]. Essentially, it's obvious, moral and fair: not something you can say about most issues related to taxation. But there's another reason that we should do this: one that should make the left love us even more for pointing out. It's all contained here in this little chart:



Agreed, that doesn't tell anyone very much as it's not labelled. But what it is is the personal allowance for income tax expressed as a percentage of average wages. Sadly, we had to rely upon government figures to create this so it's obviously not quite right. Pre-1966 it's mean wages, after median and 1967 doesn't appear to exist anywhere in the records. We didn't run it all the way back to the beginning of income tax either. The £60 a year tax free limit in 1799 would be around £68,000 or so now meaning that only the top 1% would have to pay income tax. Even I think that government can beneficially spend slightly more money than that would raise.

The point of this exercise though is to show that the ASI's insistence that the personal allowance should rise strongly is not some modern abberation. We are in fact, possibly for the only time ever, being profoundly conservative. What has happened since WWII is that successive Chancellors (of both parties please note) have used fiscal drag to pull ever more people into the income tax net. Wages tend to, over time even if not each year, rise faster than inflation. So, if you only raise allowances in line with general inflation not nominal wage rises more people will end up paying income tax. Of course, you can increase this effect by not raising the personal allowance at all as G. Brown did at least once.

The current work of the Coalition (as Madsen points out, prompted by the Lib Dems) to significantly raise the personal allowance is a good start. But a good start is not enough: what we really want to get back to is those halcyon days celebrated by Ken Loach's "The Spirit of 45". You know, that time so praised by Polly when we all came together to create the New Jeruslalem. That time when you only entered the income tax system when you were earning more than 50% of average wages.

Given that average wages are currently in the mid £20 thousands per year this would mean that the

personal allowance should be some £12,500 a year or so. Which is, amazingly, the number that we already shout that it should be.

The point of this little piece being that this is not a radical departure from prevailing norms at all. It's actually a return to the socialist taxation policies of Major Attlee: and obviously there's not a leftist in the country who would think returning to the policies of those days would be a bad idea.

Yes, I know, there will be a certain cognitive dissonance at the idea that the ASI (and possibly even worse, one T. Worstall) is recommending the post-war policies of the Labour Party. But yes, let us be properly socialist about taxation in one respect: let's stop taxing the poor so damn much.

My thanks to the commenter who calls himself Surreptitious Evil as it was he that did all the hard work of digging out the figures and setting up Excel.

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