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The wrong question [1]

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The Liberal Democrats are the latest ones to come up with the wrong answer by asking the wrong question. They announce (but are unlikely to get) a mansion tax, taxes on wealth, and an additional 100 tax inspectors to scrutinize the returns of "the rich." They think the question is "How do we get well-off people to pay more taxes?"

Others have tried to blur in the public mind the important distinction between ordering one's affairs to minimize tax liability, using the provisions the state has allowed for doing so, and not declaring one's income honestly in order to escape paying taxes on it. The former is tax avoidance and is legal, the latter is tax evasion and is not.

The aim of the people who advocate these things is to raise taxation by having high earners pay more. Rather than simply raising the rates, as some argue for, the additional aim seems to be one of having HMRC aggressively re-interpret the rules so as to gain more revenue from the existing rates.

The whole question is misconceived. Instead of asking, "How do we get well-off people to pay more taxes?" we should be asking, "How do we get talented and creative people to generate more business, more growth, and more jobs?" If they do that, they will broaden the tax base and generate more revenue for the Exchequer, although it will be a smaller proportion of the total economy.

Several studies have shown that government wastes billions of pounds every year on things it does badly and things it should not be doing at all. Instead of trying to extract more money from successful people to fund this wastage, they should be trying to prevent it happening in the first place.

New attacks on successful people are likely to drive some of them abroad, and to prevent others like them from setting up business in the UK. We should not be trying to squeeze more revenue from them for government spending, we should be lowering the taxes and regulations that act as disincentives for business development and expansion. It comes as no surprise that when people ask the wrong question they end up with the wrong answer.

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