

Taxing the rich.

Here's a surprise. I agree with the three main political parties in the UK that we have to tax the rich. They are right to say most of the tax has to be paid by those with the higher incomes and with more assets. All three main parties have been living high on rhetoric about taxing the rich and closing tax loopholes for the last decade, and all three in power have decided to put tax rates up and impose new taxes on the rich. It's certainly worked. The top 1% of Income taxpayers pay 27.5% of all Income Tax, and the top 25% pay 75% of all Income tax paid. 44% now pay no Income Tax.

Some of this is not socialism but commonsense. There's no point setting out to extract tax revenues from those who have little income and no assets. Even the steeliest state tax tyrant knows you can't get money out of those who do not have it in the first place.

The issue between socialism and commonsense is how you tax the rich, and by how much. Socialists want to tax the rich because they do not like them. They do not mind if they tax them beyond the point where they leave the country or to the point where they are no longer rich enough to pay the extra taxes. Sensible Conservatives want to tax the rich because we want decent public services and understand it is the richer part of the country that has to pay for the bulk of them. We want to tax the rich in ways which will coax the money out of them we need for a decent society, without taxing them so much that they leave, stop investing, decide not to participate fully in the private sector economy for fear of having to pay more. We believe in the power of aspiration. Many people who start out with no assets and little income aspire to have assets and a decent income. Too much tax can blunt aspiration or thwart ambition.

This poses two questions. What is the right rate for taxing income and consumption of luxuries? Tax at too high a rate and you will collect less revenue and do damage to the productive economy. Tax too high and the marginally ambitious for a better lifestyle will conclude it is too difficult. What is the right balance over taxing things the rich do which are usually thought of as a good if others do it, like buying a home or investing in a pension fund.?

It is clearly right that we will only have a successful economy if the rich share their surplus somehow with those on lower incomes. We rely on the rich to invest in businesses that will employ others, to buy luxury items and services which others supply, to redevelop our cities and build new buildings. If they do not spend and invest enough willingly, the UK economy may be impaired. Germany's refusal to share her massive surplus with her partners in the Euro shows what misery large scale underspending and underinvestment can create if the rich surplus holder is too cautious.

Taking some of the money off the rich in taxes does ensure more of it is spent, as much of this money is given to people on lower incomes as benefits or in the form of public services free at the point of use. Take too much and

you may get the opposite effect, as the rich go elsewhere or adapt their behaviour to an even more cautious private sector pattern. If a relatively well off person feels their tax rate is too high, they may well spend less to conserve what money remains.

In subsequent posts I will look at what this means for the detail of tax policy on income and assets.