

THE TOP RATE OF INCOME TAX SHOULD BE CUT TO ZERO



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In Britain now (now being March 1996) our incomes are taxed by the government in the following way. The first £3,765 per year that you earn, you keep it all. Whatever you earn between £3,765 and £7,665, the government takes 20% of it (£780, according to my calculations). Whatever you earn between £7,665 and £29,265, the government takes 24% (£5,184). And whatever you earn above £29,265, the government takes 40%. So if you now earn £100,000 per year, you now pay £780 plus £5,184, plus 40% of £70,735 (= £28,294), which comes to £34,258. All these numbers are based on you having no mortgage and not being married, and on there generally being no complications. Also, me being the kind of tax expert I am, they may be miscalculated and even somewhat wrong to start with, or at least out of date. Nevertheless, the basic outlines of our current income tax system are, I trust, reasonably clear.

The libertarian line on taxation is that it is theft (see Chris R. Tame, *Taxation Is Theft*, Political Notes No. 44), and of course I agree with that. None of these taxes should be levied. But suppose we are involved in a discussion not about taxation as a whole, but merely about the top rate of income tax, the bit that swings into action as soon as your income rises above £29,265. Suppose the only opinion being solicited is: what should that percentage rate be? Now it's 40%. What should it be?

My answer is: zero. That's right. Nothing. Whatever you earn above £29,265 should be *all yours*. The government should take *none* of it. The top rate should cease being 40%; it should fall to 0%. Anyone with an income of more than £29,265 — *no matter how much more* — would pay just £780 plus £5,964 equals £6,744 in income tax.

This plan needs to be distinguished sharply from merely *abolishing the top rate* of income tax, that is, taxing everything you earn above £7,665 at 24%, with only the bit where the government switches from taking a mere 24% to taking 40% being got rid of. Under this arrangement, an income of £100,000 would be taxed at ... er ... £22,940.40p.

If you like the idea of cutting the top rate of income tax to zero (if only because of the sort of people who won't like it), you're probably already thinking about the truly breathtaking incentive effects it would trigger off (not least in yourself and your own arrangements) and of the consequent fabulous improvements in the lives of everyone (including and especially the very poor). If you like heavy taxes on high incomes, you are probably already thinking about how very unjust you think such a change would be, about how the government's income would plummet dreadfully, and how the poor would consequently starve in the gutter in even greater numbers than now, and — even more seriously — how someone like your despicable self would find it harder to get a government job.

So what would be the results of this change?

I believe that cutting the top rate of income tax from 40% to 0% would be a huge improvement to Britain, even in the total absence of any changes to the taxes paid by lower paid people, or to taxes collected by other means.

THE DETAILS OF BIG INCOMES WON'T MATTER!

First and most obviously, if you already make lots of money, you'd now get to keep virtually all of it, and would be greatly encouraged to try to make lots more, because you would keep literally all of that. But it absolutely wouldn't stop there.

The distinction between a system in which the size of your income is always of significance in determining your tax bill, and one in which *the details of how much more than £29,265 you earn don't matter a damn*, is the vital one to grasp. If the *top rate* was merely replaced by the rate below it, and all income above £7,665 was taxed at 24%, then what you earned would always matter very much — and the more you earned the more it would matter. By contrast, a zero top rate would end a mass of calculations and claims and counter-claims and deceptions concerning the exact size of large incomes, both from those making the incomes (claiming that they're smaller), and from the tax gatherers (arguing that they're larger). It wouldn't matter! If you're more than £29,265 per year, you pay £6,744 in income tax. End of story. All those silly bits of paper you now have to keep to prove to the tax people that you earn only what you say you earn in the way that you say you earn it, and spend all that you say you spend in the way that you say you spend it — that would all be forgotten about, and you could concentrate entirely on making and spending ever more money. Many who earned less than £29,265 a year would also pay £6,744, because that would be so much easier and grander: "There's your £6,744 you vampires, now bugger off!"

Think of the number of tax advisers this change would sweep out of tax advising and into more beneficial occupations! Think of the extreme difficulty the tax officials would have explaining why their annual budget would still need to be increased, instead of slashed to far below its present level!

HUGE INCENTIVE EFFECTS

But this delightful truth about the delights of having a big income is only the beginning of the story. If Britain were to make the change I propose there would be a huge influx of high-earning foreigners and returning tax exiles, and a far huger influx of low- and middle-income Brits into the ranks of high-income Brits. The people now earning around £20,000 and wondering if it's worth working any harder (given that as soon as they get above £29,265 they'll be clobbered harder) will suddenly stir themselves. Young men wondering if a life of



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FOR LIFE, LIBERTY AND PROPERTY

hard work would be worth the hard work would decide in far greater numbers that it would. Some who are now paupers would even decide to take a deep breath and try to climb to the top rate bracket. The poverty trap would still be there, but there would be a far greater incentive to climb out of it.

Many are scornful of “trickle-down” economics, including even some libertarians. (See Danny Frederick, *It's Not "Trickle-Down": How Capitalism Benefits The Poor*, Economic Notes No. 65.) But trickle-down effects are real enough, the only problem recently being that there have not been enough of them. If high earners do more, lower earners get pulled up the income ladder, to do jobs that the high earners are now too busy to do. The increased spending and investing of high earners creates more chances for the people below, and hence more spending by them as well. A top-rate-of-income-tax-equals-zero regime would massively intensify all such effects, making life hugely less hideous for low income earners.

GOVERNMENT INCOME WOULD PROBABLY GO UP

... which brings me to the big snag of the idea: *it would almost certainly mean not less money for the government to spend, but more.* There would be a *huge* increase in the number of people paying £6,744. Many others would try to reach the magic £29,265 mark but would fail, thus earning much more than they do now, and thus paying a lot more income tax than they do now, and receiving a lot less in government hand-outs than they do now. It is these £12,000-or-thereabouts a year low-to-middling-earners who pay most of the income tax that the government now gets, not the top earners. Boosting the number of middling-earners and encouraging all of them to try to get above £29,265 per year would probably more than compensate for the loss of income tax revenue from the relatively few top earners who now pay a far greater amount per head. And since more earning would mean more spending, the government would also get a lot more from its taxes on spending. So the government might — alas — be able to afford *more* people on its payroll, rather than less. Even state bureaucrats would do better. I suppose no idea is perfect.

THE INJUSTICE OF EQUAL OUTCOMES — THE JUSTICE OF BETTER OUTCOMES

As for justice, rich people are not those who *earn* lots of money, rich people are those who *have* lots of money. Denying to those who work hard the extra rewards they are earning is itself unjust. Inequality and injustice are two completely different and often opposite things. True, the change would also apply to the savings income of the truly rich, the people who have big incomes without working. But this would also hugely encourage and reward saving, and hence investment. Such unfairness would be massively made up for by the huge benefits that all would gain from the change, especially the poor.

I don't know about you, but people richer than me getting even richer even faster than me only upsets me if I'm making no progress myself. If my life's improving, I don't care at all if the lives of richer people are improving even more. Good luck to them, and here's hoping I eventually become someone like that myself.

THE BENEFITS TO ART, SCIENCE AND ACADEMIA

Given that I've space to mention just one more likely consequence of the lowering of the top rate of income tax to zero, I choose to pick out the benign effect of the change upon the more highbrow sorts of culture — scientific, artistic and academic. Science, art and academia all now suffer from the fact that most of the big money for them comes from the government, which results in stultification and uniformity, in the perpetuation of error and of foolishness, in fact in all the characteristic ills of other nationalised industries. A better way, because a more competitive and diversified way, to fund high art,

high science and high scholarship would be for eccentric millionaires and billionaires — with all their different opinions about what is true, useful, honourable and beautiful — to pay for it, and not just the government. I take it we agree that my proposed change would mean many more of such rich oddballs.

WHY SAY IT?

I know. Is this idea “practical”? Well, if by practical you mean that the members of the present cabinet will eagerly read this pamphlet and exclaim “gee wizz we'd never thought of that what a grand idea let's do it now”, then of course it isn't practical at all. Worse, it probably isn't what I myself would do, if I had the power to decide such things. I only think that lowering the top rate of income tax to zero and leaving all the lower rates where they are is the answer if the question is only about what the top rate of income tax should be. Yes, the top rate should indeed be zero, but so should all the other rates, and I'd probably start not by knocking the top rate down to zero, but by replacing all the different rates with a single flat rate, and then I'd try to squeeze that rate down to zero.

So if the top rate of income tax isn't going to be lowered to zero in the foreseeable future, and if I don't even myself believe in the top rate of income tax being lowered to zero in the exact way I describe, why say it? Just to be pleasingly outrageous? Of course that's part of it. But I also say this because I believe it is useful to isolate the harm done by one particular bit — the most popular bit — of income tax, not only to those who must now pay it, but to everybody else. Explaining why the lower rates of income tax should be slashed is easy, and it is regularly done. Poverty trap — unemployment — injustice of poor people paying for services used more by rich people than by poor people — poor people living next to other poor people who pay no taxes and instead just lie around all day watching TV. All of which is very true and can't be said too often. But I thought: let's apply some libertarian extremity to the top end of the income tax scale. By mentally slashing *only* the top rate of income tax to zero, even if doing it only as the answer to an artificially restricted question, we realise things that we wouldn't realise if we thought only of lowering — or even abolishing — income tax in general.

Saying that the top rate of income tax should at once be slashed to zero also has the pleasing effect of turning the proposal for a “flat rate” income tax of steadily decreasing severity as the years go by into the middle-of-the-road mush that it is. As we all know, middle-of-the-road mush is the kind of mush that gets done.

MAYBE IT IS PRACTICAL

But then again ... maybe life is more interesting than this. Another virtue of the idea of cutting the top rate of income tax to zero is that it throws light on what are *already* the unofficial not-for-public-consumption realities of tax policy. “Live and work and invest here, and we'll fiddle the numbers to make it worth your while.” That's *already* what governments are having to say to the highest-earning highest-contributing economic players, footloose and fancy free, who can simply make half a dozen phone calls and vanish to Malaysia next week if Britain doesn't offer a good tax deal on a three hundred grand salary or a big investment. (For a good description of these new realities — but for an absurdly pessimistic view of their consequences for poor people — see Ian Angell, *The Information Revolution and the Death of the Nation State*, Political Notes No. 114.) So, if this is already what is being done in a muddled and secretive way, why not make it official? Maybe the idea of cutting the top rate of income tax to zero is not only fun, and illuminating, and pleasingly upsetting to those whom it is pleasing to upset; maybe it is also what I *would* do if I could, and what the people who decide such things will find themselves doing for real, far sooner than they now think.