

The 50p tax rate was first introduced by then Prime Minister Gordon Brown in 2009. It was presented as an emergency response to the sudden crisis in public finances following the financial crash the year before. At the time Yvette Cooper said: "We never expected that we would have this kind of global financial crisis on a scale not seen for almost a century. In those circumstances, what we need to do is to make sure we are being fair." In 2012, George Osborne abolished the 50p tax rate. He argued that it was not raising enough money to justify its existence. He balanced the measure out with tax breaks for the lowest earners as well. Last weekend, Ed Balls pledged to reintroduce the 50p tax rate for similar reasons to Gordon Brown in 2009. He said: "It's a fair way to get the deficit down. The phrase is 'we are all in this together' – that is part of the policy."

## Will it raise money?

In terms of public spending, the amount the 50p tax rate will raise is relatively small. According to the IFS, the tax could raise up to £3.5bn if there was no change in behaviour by affected individuals. The IFS goes on: "However, once one allows for behavioural response, [HMRC's] central estimate was a cost of just £100 million – a very small amount of money." (<http://www.ifs.org.uk/publications/7066>)

There are three important points to consider here:

- First, the IFS emphasises that there is a lot of uncertainty around HMRC figures – so the tax may well generate more than the £100m the department has put forward.
- Second, the "change in behaviour" the IFS mentions may be a reference to tax avoidance. In which case, there is a strong argument that says the government should clamp down on tax avoidance rather than shying away from introducing the 50p tax rate.
- Finally, when the 50p tax rate was introduced by Gordon Brown, George Osborne conceded it had raised £1bn (and had the potential to raise much more). This £1bn, though small, could cover the cost of a number of cuts affecting the very poorest, including the bedroom tax, legal aid cuts, and the 1% cap on benefit increases –

each of which have saved significantly less than £1bn. You can read more about that here:

<http://www.newstatesman.com/politics/2013/04/welfare-cuts-50p-tax-rate-could-have-prevented>.

## How many people are affected by it?

According to HMRC figures released in January 2013, 236,000 people are affected by the tax.

## Why does the Labour Party want to introduce the 50p tax rate?

The Labour Party has focused less upon the amount the tax rate would actually raise, and more upon promoting the basic principle of fairness. Ed Balls said "those with the broadest shoulders" should bear a fairer share of the burden." Lord Stewart Wood said "Labour's 50p tax pledge is fair and popular." (<https://twitter.com/StewartWood/status/428147887978332160>)

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The 50p tax rate seems to be a signature policy for the party, in the sense that it makes a statement about Labour's values of equality; part of which is a progressive tax system. It is coupled with similar Labour policies, such as a bankers' bonus tax and a mansion tax.

Having said all this, Ed Balls has also said the policy is merely a means of bringing the deficit down, and will be temporary (<http://www.theguardian.com/politics/2014/jan/27/ed-balls-50p-tax-rate-temporary>)

The 50p tax rate is also very popular. As Chris Giles, Economics Editor of the Financial Times, puts it: "Labour has hit on a policy that polls well because

so few people pay the 50p rate and they already have the highest incomes." (£) (<http://www.ft.com/cms/s/0/1c423b04-86b0-11e3-885c-00144feab7de.html?siteedition=uk#axzz2riLmKhIB>)

A YouGov poll for the Times found that 61% of people support the policy (<http://www.politics.co.uk/news/2014/01/28/poll-shows-huge-public-support-for-ball-s-50p-tax-gambit>).

## What are the criticisms of the 50p tax rate?

There are two main themes of criticism. The first is that the tax won't raise much money, which is what

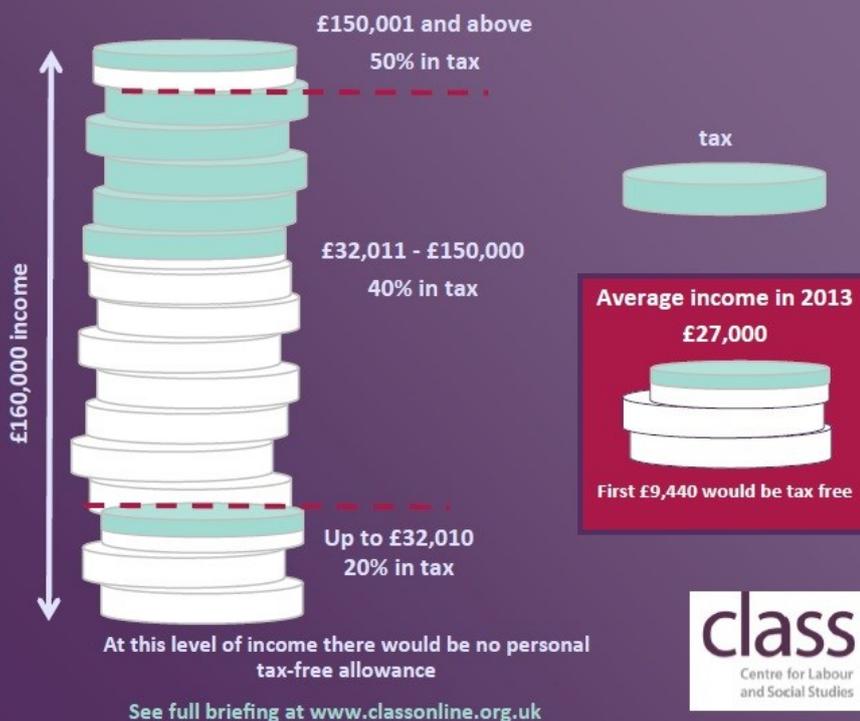
Treasury minister David Gauke said earlier this week (<http://www.bbc.co.uk/news/business-25895480>).

The second is that the tax is bad for the economy. Many businesspeople have accused the Labour Party of being "anti-business." Richard Longdon, chief executive of Aveva, the Cambridge-based software company, said: "The real issue with the Labour proposal is the signal it sends, in that taxing the better off is fair game and leaves people wondering what next?" Ed Miliband has been accused of alienating businesses in the run-up to 2015 (£) (<http://www.ft.com/cms/s/0/434e3dd6-8671-11e3-aa31-00144feab7de.html?siteedition=uk#axzz2rcOXScpi>).

Moreover, some critics have suggested that the tax will cause high earners to relocate from the UK

## What is the 50p tax rate?

Everyone in the UK receiving a "taxable" income - salaries, pensions and interest on savings - has to pay income tax. The 50p tax rate will only affect those on high incomes. It means that half all income above £150,000 would be taxed. So, if your income is £160,000, this is how it would work out:



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and take their money with them (there is very little evidence that this happens in practice see <http://www.theguardian.com/commentisfree/2013/apr/18/tax-competition-mythbuster>).

However, the criticism of the policy does seem milder than in 2009, where Gordon Brown was accused of class war, playing politics, and alienating ordinary middle-class voters –perhaps those criticisms reveal a shift in politics over the last 5 years, if journalists and politicians now concede that ordinary middle-class voters are not earning over £150,000 (<http://www.telegraph.co.uk/finance/budget/5203642/Budget-2009-Gordon-Brown-declares-class-war-with-tax-on-high-earners.html>).

## Articles we like

**Let's support Ed Balls's 50p tax rate instead of George Osborne's shameful attack on the poor** – Conservative commentator Peter Osborne surprisingly comes out in favour of the 50p tax rate in the Telegraph (<http://blogs.telegraph.co.uk/news/peteroborne/100256699/lets-support-ed->

[ballss-50p-tax-rate-instead-of-george-osbornes-shameful-attack-on-the-poor/](http://blogs.telegraph.co.uk/news/peteroborne/100256699/lets-support-ed-ballss-50p-tax-rate-instead-of-george-osbornes-shameful-attack-on-the-poor/))

**Why Labour will reverse Cameron's top rate tax cut** – Shabana Mahmood explains the reasoning behind the policy in the New Statesman (<http://www.newstatesman.com/politics/2014/01/why-labour-will-reverse-cameron%E2%80%99s-top-rate-tax-cut>)

**The 50p tax rate is a small price to pay for the privilege of being able to live and work in our society** – Alan Manning deconstructs the arguments put forward by businesses against the 50p tax rate for the LSE politics blog (<http://blogs.lse.ac.uk/politicsandpolicy/archives/39301>)

**The welfare cuts that the 50p tax rate could have prevented** – George Eaton looks at how money collected using the 50p tax rate could be spent, for the New Statesman (<http://www.newstatesman.com/politics/2013/04/welfare-cuts-50p-tax-rate-could-have-prevented>)

## What has Class published?

Class has published a number of papers on the issue of progressive taxation:

**THINKPIECE:** In Land Revenue – Andy Hull, May 2013 (<http://classonline.org.uk/pubs/item/in-land-revenue>)

**BLOG:** The case for a land value tax – Andy Hull, May 2013 (<http://classonline.org.uk/blog/item/the-case-for-a-land-value-tax>)

**POLICY PAPER:** Financing a Social State – Richard Murphy, Howard Read, April 2013 (<http://classonline.org.uk/pubs/item/financing-the-social-state>)

**POLICY PAPER:** Towards a New Tax Consensus – Richard Murphy, May 2012 (<http://classonline.org.uk/pubs/item/towards-a-new-tax-consensus>)

**BLOG:** Now is the time for a new tax consensus – Richard Murphy, May 2012 (<http://classonline.org.uk/blog/item/now-is-the-time-for-a-new-tax-justice-consensus>)

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