

# The Telegraph

## Tory leader hopefuls should cut taxes for higher earners

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Conservative leadership hopeful Dominic Raab wants to cut your income tax. Should he win, the former Brexit secretary plans to slash the basic income tax rate by five percentage points over a parliament, to just 15pc.

Being first out of the traps, Raab has set a baseline for scale and content against which rival candidates' tax ideas will be compared. But there's a much more pressing fix needed for income tax, and one that if done properly Conservatives would reap political benefits from: ending the creeping reach of Britain's highest income tax rates.

During the coalition government, Conservatives celebrated taking poorer earners out of income tax with inflation-busting increases in the personal allowance.

Yet this was part-financed by accelerating the trend for dragging more and more people into the higher 40pc and 45pc bands. That phenomenon has only been partially offset in recent years, following the Tories' 2015 promise to raise the 40pc threshold to £50,000.

Statistics on the stretching tentacles of the higher income tax rates are, as a result, quite incredible.

Back in 1990, just one in 15 income tax payers were in the 40pc bracket. It really did target the very top income earners. By 2009, the proportion had jumped to one in 10 – a near-doubling from 1.7m to 3.2m people. Now, after nine years of Conservative government, it's higher than one in seven, with 4.7m people in either the 40pc or 45pc bands in 2018.

This was a policy choice from the Tories in government. The default for tax thresholds should be that they at least keep pace with inflation, and so preserve their real value.

In the early years of the last parliament, the coalition government instead actually lowered the threshold for when the 40pc rate kicked in – causing the real value to plummet. Though there's been real stability since then, the inflation-adjusted value of the threshold has fallen by 20pc since Labour's last year in government.

Conservatives once lamented such "taxation by stealth", but holding down the higher tax rate thresholds to produce "fiscal drag" has recently been their hidden tax of choice. As wages and earnings rise via inflation or income growth, not raising thresholds commensurately means more people paying higher average tax rates, raising revenues without government facing the scrutiny seen when directly upping rates. Whereas median pre-tax incomes in the UK rose by 21pc between 2009 and 2015, for example, the higher rate threshold actually fell by 2pc.

How many people talked about the tax increases on those affected?

The Tories since 2010 have therefore normalised us to stagnating higher tax thresholds, with politicians arbitrarily determining when they change. This is completely alien to many countries, especially the US, where tax band thresholds are index-linked by law.

Not adopting such measures simply undermines accountability for tax rises and creates a default for an-ever rising burden. Though few will lose sleep over it, the consequences further up the income scale are more severe.

Gordon Brown introduced the tapered withdrawal of the personal allowance for those earning above £100,000, creating an effective 60pc marginal income tax band. More people have been dragged into that with the £100,000 threshold frozen and the expansion of the personal allowance widening the net over which this higher rate applies.

The £150,000 starting point for the 45pc “additional” income tax rate has likewise been ossified since 2010. The number facing it has increased by 66pc in less than a decade.

A new Tory leader must end this stealth taxation and, at a minimum, renormalise protecting tax thresholds’ real values. Ideally that requires a retrospective jump in the higher rate threshold and new law to link thresholds to wages or prices.

Combined, such action would bring economic and political dividends for the party. The marginal tax rates many people face will fall, improving incentives to earn income. There would also be more cash in the pockets of many aspirational, conservative-minded voters too.

The opposition will wail about “tax cuts for the rich”, as they always do. In this case, though, the Tory party will be reaping a whirlwind of its own creation. By endorsing a baseline that only the personal allowance need ever rise, it is they who created a status quo bias that says increasing thresholds in line with inflation amounts to “a tax cut”.

That is totally wrong as a point of economics. Failure to raise income tax thresholds in line with inflation is actually a tax increase. Had such thresholds been protected in real terms since 2009, the 40pc rate wouldn’t kick in today until someone earned almost £58,000, and the 50pc rate until income earned £197,500.

Of course, reverting back to that would have big fiscal consequences. Raising the 40pc threshold to this level would reduce revenues by about £7bn per year.

But given that Raab’s basic rate cut proposal would forego somewhere around £25bn, it is worth using any tax-cutting space to offset at least some of the damage done.

More importantly, a future prime minister should legislate to create a new baseline and protect taxpayers going forward. US-style legislation that dictates that all income tax thresholds must rise in line with inflation or wages automatically would change default expectations. Politicians would have to vote to overturn the now expected increases in thresholds, with any votes to do so recorded and seen for the tax increases they affirm.

Such a practice could prove extraordinarily useful for taxpayers and Conservatives with the threat of a Jeremy Corbyn government on the horizon.

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