

**For immediate release**

## **Government will lose £800 million from tax hikes on the rich**

**Budget tax increases on those earning over £100,000 will reduce government revenues by £800 million and hit the City of London; 25,000 to go into tax exile**



making business sense

Prior to the Pre-Budget Report in November, **cebr** estimated (*Would a 45% tax rate raise any revenue at all?*) that the likely 45% tax rate on incomes over £150,000 a year would cost the economy 35,000 jobs and over a 10 year period cost the country £2 billion in revenues.

In the event, not only was a tax increase to 45% announced but also a restriction in tax relief on pension contributions and on the personal allowance, both to come in in 2011.

Since then the respected Institute for Fiscal Studies "Can More Revenue be Raised by Increasing Income Tax Rates for the Very Rich?", IFS Briefing note BN84, <http://www.ifs.org.uk/bns/bn84.pdf> has produced an assessment which almost exactly replicates the cebr figures. Clearly the closeness of the conclusions is pure luck given the nature of the assumptions that have to be made but it is important that the leading analysts of taxation impacts have essentially agreed with our own assessment.

Given this, we have made a provisional assessment of the impact of the tax rises for the rich contained in today's Budget, extrapolating from the analysis that we made last November.

The measures announced in today's Budget are: a 50% tax rate on incomes over £150,000, starting in 2010; the abolition of personal allowances for those earning more than £100,000 and the abolition of tax relief at rates over 20% on pension contributions for those earning more than £150,000 a year.

Our provisional calculations suggest that if these were implemented, over 3 years there would be a loss in UK jobs building up to 140,000; a loss in GDP in the City of London of 3% and a loss in tax revenues for the government of £800 million a year. About 25,000 high end taxpayers would be likely to shift tax regimes, with the low tax cantons in Switzerland like Zug the likely largest gainers.

We can understand the tough choices that governments might have to make when they have to trade off the prospect of raising revenues against the potential damage that higher taxes might do to the economy. **But the evidence here seems to be that the damage to the economy is so great that there is no trade-off. The economy is worse and revenues are lower.**

We doubt if the tax changes will in fact be implemented given the imminence of the next election. But even the risk that they might be will hit the economy.

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