

Policy Report

Taxes at the top: Understanding what high earners pay and options for reform

September 2026

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Taxes at the top: Understanding what high earners actually pay, and options for reform

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Published by

Centre for the Analysis of Taxation

September 2026

centax.org.uk

This research was funded by the Nuffield Foundation (WEL/FR-000023787). This work contains statistical data from HM Revenue and Customs (HMRC) which are Crown Copyright. The research data sets used may not exactly reproduce HMRC aggregates. The use of HMRC statistical data in this work does not imply the endorsement of HMRC in relation to the interpretation or analysis of the information. The authors thank Andrew Lonsdale for excellent research assistance, Josh Flew for his support drafting this report, and the wider CenTax team for comments, data support and quality assurance.

Key findings

This report breaks down the taxes paid by those at the top. We then go on to propose four reforms that would reduce some of the variation in marginal rates, removing distortions that currently harm economic growth.

- 1. Those at the top pay a large share of personal taxes, but less so once capital gains are included.** The top 10% received 40.5% of total taxable income and paid 60% of Income Tax and National Insurance Contributions (NICs). Adding realised capital gains raises their share of remuneration to 43.9%, but their share of tax paid only increases to 61.5%.
- 2. The personal tax system is regressive at the very top of the distribution.** Average effective tax rates increase across most of the distribution, but decrease at the very top: 37% for the top 1%, 34% for the top 0.1% and down to 30% for the top 0.01%.
- 3. Between 2008 and 2022, the average effective tax rates paid by the median taxpayer fell from 17% to 12%, whilst rates for those at the top 1% rose from 33% to 36%.** Over the same period, rates for those at the top 0.01% (equivalent to remuneration of around £5 million in 2022) fell from 37% to 33%.
- 4. Those at the very top can pay vastly different rates to one another, but few are paying the headline Income Tax and NICs rates.** Among the top 0.01%, one in ten pays close to the headline rate of 47%, whilst a quarter pay 20% or less. Recent changes to CGT rates and reliefs mean this lower threshold is likely to have risen to 23%.
- 5. Structural reform of CGT and equalising rates with Income Tax would increase revenue by 62%.** This is down from the 88% increase we estimated in 2024, reflecting recent changes in CGT rates. It equates to £19.7 billion of additional revenue by 2030 given the current OBR baseline forecast for CGT.
- 6. Applying an equivalent of Employer NICs to partnership profits would raise £2.1 billion in 2030.** 98% of this revenue would come from the top decile.
- 7. Applying an equivalent of Class 1 NICs to investment income could raise up to £4 billion in 2030.** This is a static estimate, so before behavioural responses, and not comparable to the revenue estimates for CGT and partnership NICs.
- 8. Removing the £100,000 childcare cliff-edge would cost £640 million in 2030.** If the cliff-edge remains in place, the number of parents holding their incomes down to stay below it is set to rise eleven-fold, from 1,100 in 2022 to 11,980 by 2030. In 2022 the cliff-edge resulted in 3% of lower paid partners of individuals earning just over £100,000 leaving the workforce, with 90% of those partners being women.

1 Introduction

Debates around taxes at the top tend to proceed from three key tenets.

First, that any significant increase in tax revenue must come from raising the main rates of the 'big three': Income Tax, National Insurance Contributions (NICs) and Value Added Tax (VAT). These are the three largest taxes, together accounting for around two-thirds of total tax revenue, so at first glance increasing their main rates would be the most straightforward route to raise money. Conventional wisdom is that other reform options, even if individually merited, are too small to matter for overall revenue.

Second, that personal taxes are already top-heavy. In 2022, the top 10% of taxpayers earned 40.5% of total taxable income, but paid 60% of the total Income Tax and NICs. Therefore, the personal tax system is perceived as already being steeply progressive, with limited scope to ask those at the top to contribute more.

Third, there is widespread acknowledgement that the UK's personal tax system does not work well. For example, income is taxed at different rates depending on the legal form it takes and there are thresholds creating high marginal rates that sometimes exceed 100%.

Recent budgets show how binding these constraints have become. However, there is room for improvement to make the system fairer and more growth-friendly. As we will show, the poor design of the current system means that improvements in growth and fairness can in some cases also raise revenue, allowing additional spending, tax cuts, or lower deficits.

This report addresses two questions, drawing together new descriptive analysis with findings from several recent CenTax reports on options for tax reform, updated using the latest available data.

Section 2 sets out descriptive analysis on how much tax those at the top pay.¹ The claim that personal taxes are already top-heavy rests on headline rates of Income Tax and NICs. However, this does not account for how much those at the top actually pay given that different sources of income are taxed differently. We measure effective average tax rates on total income, accounting for this variation in rates, and also on total remuneration, which adds realised capital gains to income and Capital Gains Tax (CGT) to the tax

¹ We use 'high earners' in the title to reflect those at the top of the total remuneration distribution, though we recognise that earnings can strictly refer to income from work.

paid. We examine these effective rates across the distribution, with particular attention to the top, where variation in effective rates is largest.

Section 3 then sets out how personal taxes at the top could be reformed, addressing structural problems in the design of the system. For each of the reforms we consider, we set out the case for reform, our proposed design, and model the revenue that each would raise.

Taken together, we identify a set of reforms that could resolve structural issues in the tax system and remove distortions that currently harm economic growth. Some of these reforms would raise revenue without increasing the main rates of the ‘big three’ taxes. We do not take a view on what – tax cuts, additional spending, deficit reduction – any additional revenue could be used to fund, and proposing these reforms should not be taken as an endorsement of increasing overall taxation of this group. We also do not focus solely on tax increases. We include reform options that would reduce taxes for some on the highest marginal rates. For example, through the removal of the so-called ‘childcare cliff-edge’ that results in effective tax rates over 100% for parents with incomes around £100,000.

2 How much tax do those at the top currently pay?

Viewed from the perspective of headline tax rates on earnings, the UK's personal tax system looks steeply progressive. Top marginal rates on employment income reach 47% including Employee NICs – and can be higher after accounting for specifics such as the £100,000 childcare entitlement threshold. However, understanding the full picture of the taxes actually paid by those at the top of the distribution requires a closer examination.

In this section we use de-identified administrative tax data accessed via HM Revenue and Customs (HMRC)'s Datalab to examine in detail taxes paid at the very top. Our access to comprehensive de-identified microdata on individual incomes, gains, and tax paid allows us to present a nuanced picture of the differences in tax paid between individuals in the UK, both across the income distribution ('vertical equity') and between individuals with similar levels of income ('horizontal equity').

These data cover the universe of UK taxpayers, and we use them to report on 'total remuneration', which adds realised capital gains to income and CGT to the tax paid. 2022 is the latest tax year for which full data are available for our analysis and, unless stated, is the relevant year for all results in this section.²

² All years refer to tax years and are given as the later year, so 2022 is tax year 2021-22.

2.1 Those at the top pay a large share of all personal tax

The progressivity of UK Income Tax means that those who are better off generally pay more in tax. The top 10% of taxpayers earned 40.5% of total taxable income, but paid 60% of the total Income Tax and NICs.³

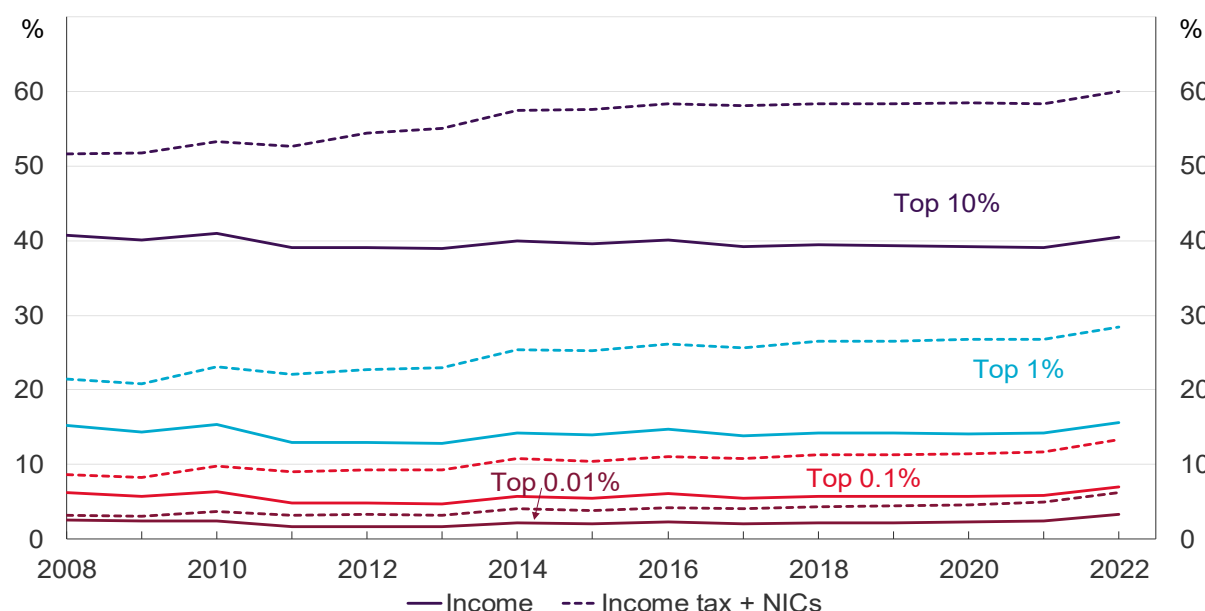
Using our base measure of total remuneration, which adds realised capital gains to income and CGT to the tax paid, this pattern still holds. However, it is weaker. The share of total income and gains jumps to 43.9%, whilst the proportion of tax paid on that income and those gains rises much more modestly to 61.5%. This illustrates how including gains changes the picture of the overall progressivity of the system. This differential underpins our approach of using total remuneration as the relevant measure to understand the taxes paid by those at the top.⁴ We explore this in various ways in the sections that follow.

Using the measure of total remuneration, to make it into the top 10% of taxpayers an individual would have needed £51,000 in 2022. To make it into the top 1%, top 0.1% or top 0.01%, they would have needed £173,000, £862,000 or £4,999,000 respectively. By contrast, for income to make it into the top 10% of taxpayers, an individual would have needed £50,800 in 2022. To make it into the top 1% or top 0.1% or top 0.01%, they would have needed £160,000 or £653,000 or £2,832,000 respectively.

³ It is notable that the latest official statistics published by HMRC indicate that those lower down the distribution are paying an increasing share of overall revenue in recent years as a result of fiscal drag, fuelled by a period of higher inflation since the Covid-19 pandemic. However, this is outside the period covered by our data, which are only available to 2022. More recent data are available here: <https://www.gov.uk/government/statistics/shares-of-total-income-before-and-after-tax-and-income-tax-for-percentile-groups>

⁴ Our approach only accounts for realised rather than accrued gains. Accrued gains in the relevant year would be preferable in principle, since a realised gain reflects value built up over several years rather than just the year in which the asset was disposed of. However, HMRC data are limited to gains on disposal. We discuss this further in [Advani and Summers \(2020\)](#).

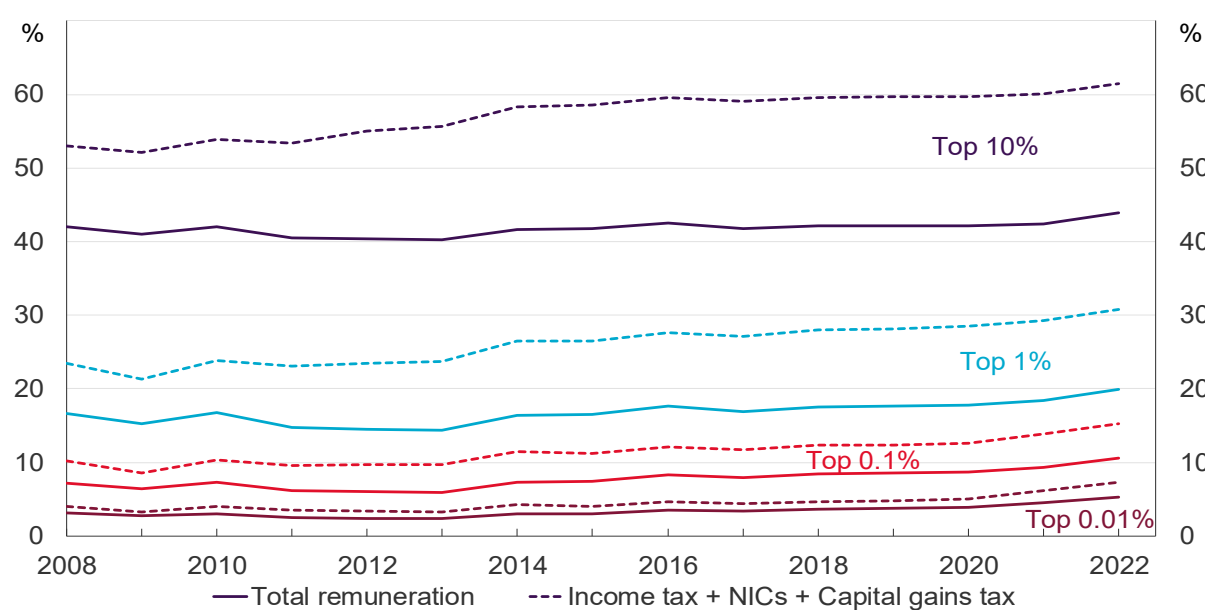
Figure 1: Share of income received, and Income Tax and NICs paid, by top earners, 2008–2022



Notes: Top fractiles defined according to total worldwide taxable income.

Source: Authors' calculations based on HMRC administrative datasets.

Figure 2: Share of total remuneration received, and Income Tax plus NICs plus Capital Gains Tax paid, by top earners, 2008–2022



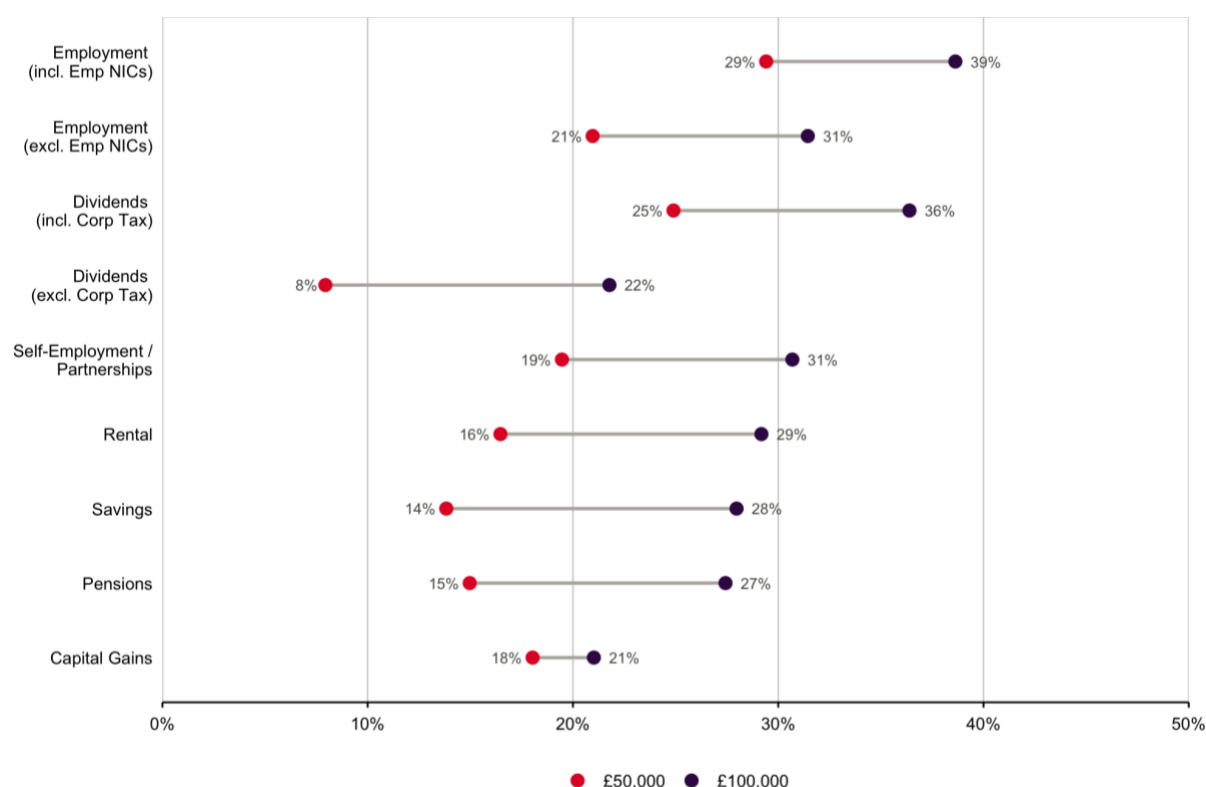
Notes: Top fractiles defined according to total worldwide taxable remuneration (income plus capital gains).

Source: Authors' calculations based on HMRC administrative datasets.

2.2 Tax rates vary depending on income source

Unlike taxpayers lower in the distribution, whose main source of income is overwhelmingly from employment, many of those at the top receive remuneration from a range of sources, each with different effective tax rates. Partners and the self-employed pay different rates of NICs to employees, and face no equivalent of employer NICs. Rental and savings income attract no NICs, but from 2027 face slightly higher Income Tax rates. Dividend income has a lower rate of Income Tax, but derives from profits that (may) have already had Corporation Tax paid on them.⁵ Tax reliefs can further lower individuals' tax bills. And most notably for the purposes of this report, realised capital gains are taxed at lower rates than Income Tax.

Figure 3: Effective average tax rates by source for gross remuneration of £50,000 and £100,000, 2028



Notes: Tax liabilities are calculated for each income source assuming the taxpayer received £50,000 or £100,000 gross receipts from that source and no other income. Effective average tax rates are calculated by dividing the tax liability by the gross income. Employment (incl. Emp NICs) includes Employer NICs paid on an employee's remuneration and subtracts this amount before calculating Income Tax and Employee NICs due. Dividends (incl. Corp Tax) subtracts the Corporation Tax paid on profits before being taken as dividends.

Source: Authors' calculations based on 2027-28 tax rates.

⁵ For most businesses, dividends will come from profits that have already faced Corporation Tax. For UK businesses, Corporation Tax varies between 19% and 25%. For non-UK businesses, and UK-based multinationals, a range of other rates are possible.

2.3 The tax system in practice is not progressive at the very top

The lower effective tax rates on capital gains and some sources of income have the effect of blunting the progressivity of the UK tax system, and indeed reversing it – meaning that the tax system is regressive at the very top.

To quantify this effect, we use administrative tax data to measure effective average tax rates (EATRs) at the individual level. In simple terms, our measure of EATRs expresses the amount of personal tax the individual actually paid – after accounting for different tax rates on different types of income, and reliefs that reduce the final tax bill – as a percentage of total taxable income and realised capital gains.⁶

Our main measure of EATRs reflects statutory incidence. It allocates Income Tax, CGT and Employee NICs to individuals based on the legal structure of the UK tax system. In principle EATRs could reflect economic incidence, capturing what individuals 'really' pay by looking through a company's legal form. This would involve allocating (a proportion of) Employer NICs to employees, and Corporation Tax to shareholders. This is the preferred concept for understanding the impact of the tax system on living standards. However, as we showed in [Advani, Hughson and Summers \(2023\)](#), doing this raises the overall level of EATRs but does not significantly affect the picture across the distribution.⁷ Given the practical challenges in constructing EATRs based on economic incidence, we conclude that statutory incidence provides a more transparent benchmark.

We then compute the *average* EATR (the mean EATR across all individuals in the quantile) for those in the top 10%, top 1%, top 0.1% and top 0.01% of the taxpayer population, based on their total remuneration including taxable income and taxable capital gains.

We find that average EATRs based on taxable income only are consistently lower than the headline rate of Income Tax and NICs on employment income, by around 2.8 percentage points on average. This reflects the use of tax reliefs and lower tax rates on pension and (in 2022) investment income, once Employee NICs are taken into account.

⁶ Advani, Hughson and Summers, 2023. For further detail on data and methods, see Appendix A.

⁷ This is an update of Advani, Hughson and Summers (2023). We explain this further in Appendix A of our previous paper where we concluded that the economic incidence of a tax cannot be expressed as a single parameter appropriate for estimating EATRs; any such estimates inevitably rely on numerous simplifying assumptions, and those assumptions often lack transparency.

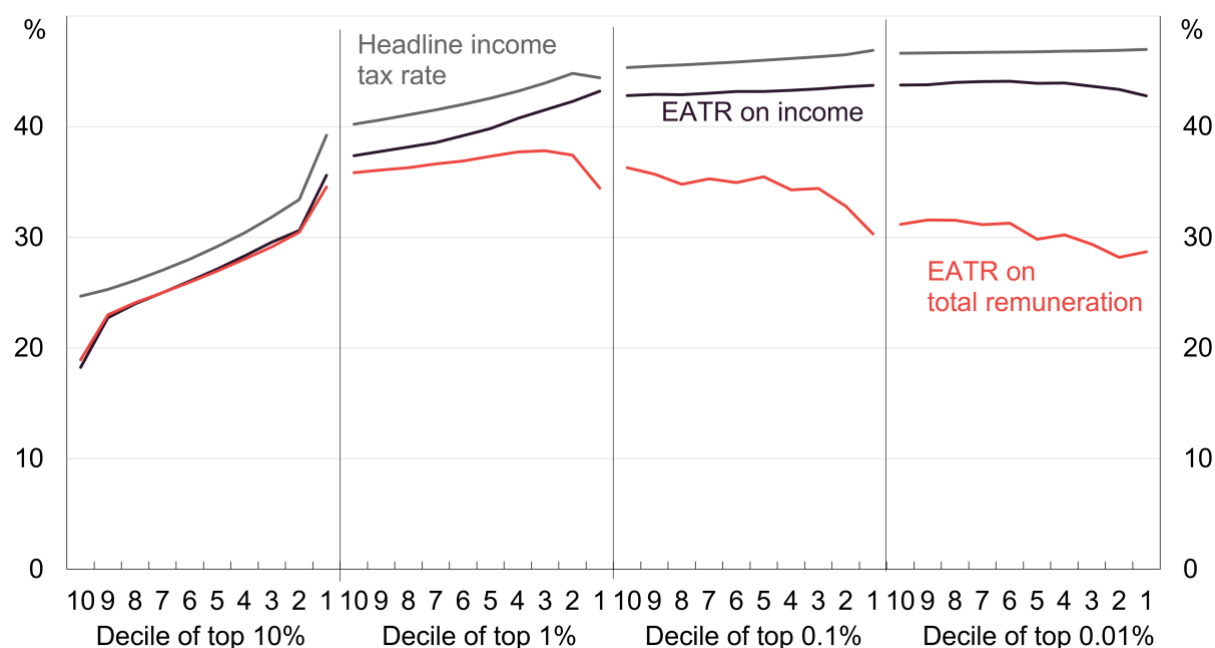
Once accounting for total remuneration, which includes realised capital gains, the gap between headline rates and the average EATRs is similar (2.9 percentage points) for the top 10% but becomes wider for the top 1% at an average of 5.8 percentage points (versus 2.6 percentage points on income). Zooming in further at the very top of the distribution, this gap widens significantly – to 12 and 16 percentage points, respectively for the top 0.1% and 0.01% by total remuneration.

The regressivity of the tax system is also apparent at the very top. While the average EATRs continue increasing from 19% to 35% within the top decile of total remuneration, and across most of the top 1%, they begin to fall for the very high earners amongst the top 1%. From an average of 37% for the top 1%, the average EATRs reduce to an average of 34% for the top 0.1% and further to 30% for the top 0.01%.

These results are based on 2022 data and so reflect the tax system as it stood at that point. They account for the reduction in the Business Asset Disposal Relief (BADR) lifetime cap to £1 million, which took effect in 2020, and in this respect differ from our earlier estimates, which used 2020 data when the equivalent Entrepreneurs' Relief cap stood at £10 million.

They do not account for the increase in CGT rates announced at Autumn Budget 2024, or the increases in Income Tax rates on savings, property and dividends announced at Budget 2025. Both would tend to raise EATRs at the top and narrow the gap we describe here.

Figure 4: Comparison of EATRs between total income and total remuneration, plotted against the headline Income Tax rate



Notes: For total income: to make it into the top 10% of UK taxpayers (all UK residents with a tax record), an individual would have needed £50,800 in 2022. To make it into the top 1% or top 0.1% or top 0.01%, they would have needed £160,000 or £653,000 or £2,832,000 respectively. For total remuneration: to make it into the top 10% of UK taxpayers in 2022, an individual would have needed £51,000. To make it into the top 1% or top 0.1% or top 0.01%, they would have needed £173,000 or £862,000 or £4,999,000 respectively.

Source: Authors' calculations based on HMRC administrative datasets

2.4 Some top earners pay much higher effective tax rates than others

When looking at individuals at the top, what is more striking than the variation in average EATRs compared with those elsewhere in the distribution is the variation in effective tax rates *between* individuals within the same group. Two people receiving the same total remuneration can pay very different effective rates of tax, depending on the sources their remuneration comes from and the reliefs they are able to claim. This is a question of horizontal rather than vertical equity, and those whose remuneration is primarily earnings from employment are worst off.

Plotting the average (mean) EATR against the median and different percentiles shows that the average EATRs presented previously hide a wide dispersion in the rates actually paid by those in the top 10%, which increases when looking at the top 1%, 0.1% and 0.01%.

Within the top decile of total remuneration, half of the individuals have EATRs around the headline rates with one in four with EATRs at least 2.2

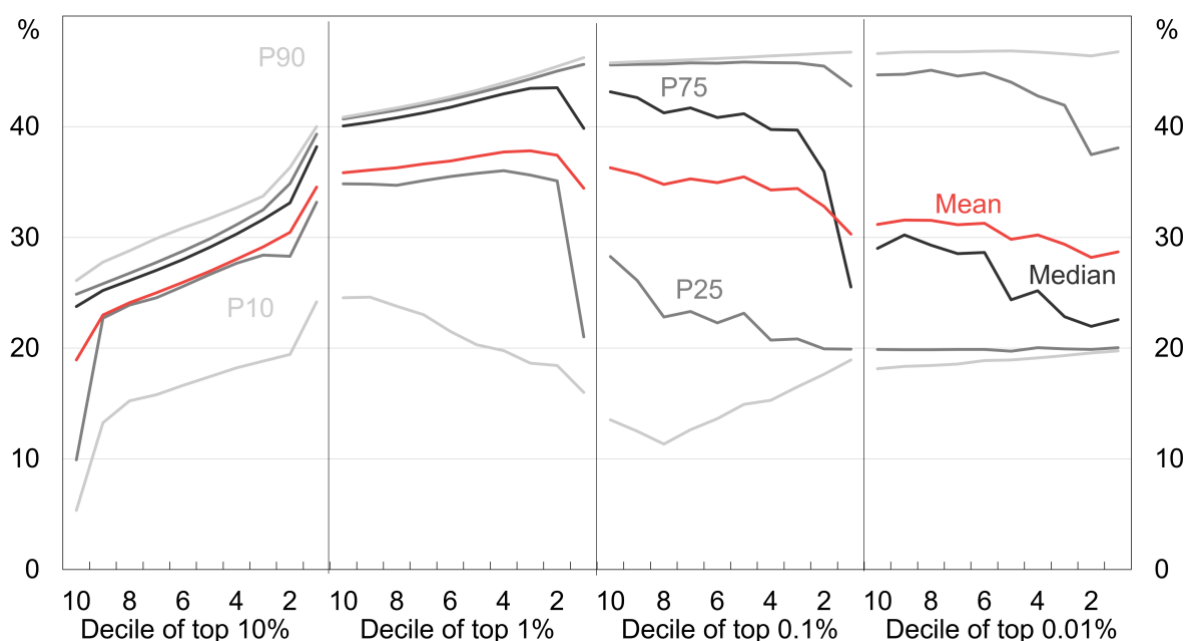
percentage points below the headline rate. Half of the individuals amongst the top 1% also have EATRs close to the headline rates, however a quarter of this group has EATRs below 36% when the headline rates are around 40-45%.

The dispersion becomes more pronounced amongst the top 0.1% where only a quarter of individuals have EATRs close to the headline rates of 45-47% whilst another quarter has EATRs below 28%. At the very top, that is amongst the top 0.01%, only one in ten individuals have an EATR close to the headline rate of around 47% whilst half have EATRs of 30% or less. One quarter pay 20% or less.

The effect of BADR is clearly visible amongst those at the top who pay the lowest effective rates. At the 10th percentile the lowest effective rates occur amongst individuals with total remuneration of around £1 million, reflecting gains eligible for the relief and its £1 million lifetime cap. Above this level the lowest effective rates rise again, because gains beyond the cap are taxed at the main CGT rate. The relief therefore produces a trough in effective rates at a specific point in the distribution rather than a uniform reduction across the top.

These results are based on 2022 data and so do not capture reforms announced since, several of which will have narrowed the gap described. Specifically, main CGT rates increased to 18% and 24% at Autumn Budget 2024, the BADR rate increased to 18% in April 2026, and Budget 2025 increased Income Tax rates on savings, property and dividends by 2 percentage points. These changes go some way to addressing the disparities described in this report, but stop well short of full equalisation. Gains for those at the top are still taxed at 24% compared with 47% on earnings, and the £1 million cap on BADR is unchanged, so the trough in effective rates described will remain, albeit at a higher level.

Figure 5: Distribution (mean and percentiles) of EATRs by total remuneration, 2022



Notes: 'Mean' shows the average (mean) EATR at different levels of worldwide taxable total remuneration (income plus capital gains) for UK taxpayers (all UK residents with a tax record). 'Median' shows the median EATR at different levels of remuneration, and 'PXX' shows the XXth percentile of EATR at any given level of remuneration. To make it into the top 10% of UK taxpayers in 2022, an individual would have needed £51,000. To make it into the top 1% or top 0.1% or top 0.01%, they would have needed £173,000 or £862,000 or £4,999,000 respectively.

Source: Authors' calculations based on HMRC administrative datasets.

2.5 Tax reforms have had a mixed impact on progressivity at the top

Tax commentators frequently remark that over recent years the UK has collected less tax from middle-earners, whilst simultaneously increasing taxes on those at the top. To assess this dynamic more precisely, we estimate how average (mean) EATRs have changed over the fifteen years from 2008–2022, for taxpayers at different points in the distribution of total remuneration.

Our analysis focuses on the average EATR for the median taxpayer, and those at the threshold of the top 10%, top 1%, top 0.1%, and top 0.01% (i.e. those at the minimum to enter this quantile, not the average of everyone in it). For context, in 2022 these thresholds equated to total remuneration of around £18,700 (median), £51,000 (top 10%), £173,000 (top 1%), £862,000 (top 0.1%), or £4,999,000 (top 0.01%).

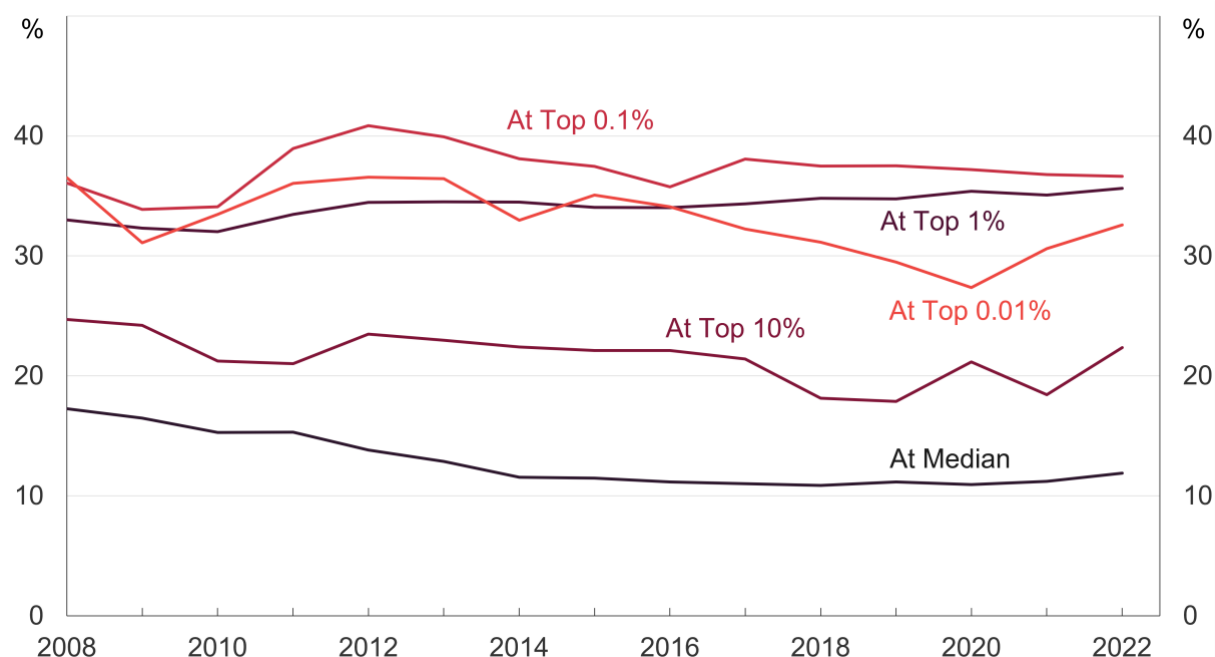
Our findings confirm that, on average, tax rates for median taxpayers have decreased between 2008 and 2022 (from 17% to 12%). This is primarily driven by near-annual increases in the Personal Allowance across this period, which has driven down EATRs amongst the whole population. However, since our data only go up to 2022 they do not account for the recent effects of fiscal drag, which have begun to reduce the Personal Allowance in real terms, and have been particularly pronounced given higher levels of inflation following the Covid-19 pandemic in 2020.

Meanwhile, we also find that average EATRs for taxpayers at the top 1% increased between 2008 and 2022 (from 33% to 36%), corroborating the common view that this group bore a disproportionate share of the overall increase in taxes during this period. Again, these EATRs will have risen as a result of fiscal drag since 2022, as well as the reduction in the additional rate threshold from £150,000 to £125,140 which took effect from 2024.

However, our findings complicate the overall picture of how taxes have changed at the top. Contrary to conventional wisdom, tax rates for those at the very top have *not* risen in line with more modest top earners. Average EATRs at the top 0.1% rose to a peak in 2012 (when the 50p top rate of Income Tax applied) and have been decreasing since, to the point that they are now broadly similar to those in 2008.

For those at the top 0.01% – requiring remuneration of around £5 million in 2022 – average EATRs fell significantly from 35% in 2015 to 27% in 2020. This trend partially reversed in 2021 and 2022, driven by the reduction in the lifetime cap on BADR from £10 million to £1 million. Nevertheless, it remains the case that (on average) those at the top 0.01% faced lower tax rates in 2022 (33%) than they did in 2008 (37%). The recent increases in taxes that particularly affect those at the very top – on non-doms, CGT and Inheritance Tax – ought to be viewed in light of these long-term trends.

Figure 6: Average EATRs for individuals earning median remuneration and at top fractiles of the remuneration distribution, 2008–2022



Notes: 'Median' shows the average (mean) EATR for UK taxpayers (all UK residents with a tax record) earning within 1% of the median of total worldwide remuneration in each given year. 'At Top X%' shows average EATR for individuals within 1% of the corresponding percentile of remuneration (90th percentile for Top 10%, 99th for Top 1%, 99.9th for Top 0.1%, and 99.99th for Top 0.01%). The average EATR is for individuals at that specific point in the distribution, not everyone above it. To be at the top 10% of UK taxpayers in 2022, an individual's remuneration would have needed to be within 1% of around £51,000. To be at the top 1% or top 0.1% or top 0.01%, their remuneration would have needed to be within 1% of around £173,000 or £862,000 or £4,999,000 respectively.

Source: Authors' calculations based on HMRC administrative datasets

2.6 Further research is needed to account for ‘missing incomes’

The descriptive analysis in this section is based on taxable income and taxable capital gains, which gives our measure of total remuneration. However, it does not include other sources of remuneration that are exempt from personal taxation altogether and which, by construction, would bring down EATRs once accounted for. ‘Missing incomes’ of this type include profits retained in companies, returns made on investments in Individual Savings Accounts (ISAs), returns on investments made using venture capital schemes, and imputed rents.

The magnitude of the impact of missing incomes on EATRs is uncertain, though to the extent that these incomes are disproportionately concentrated towards the top of the distribution, their omission from EATR calculations here will make the tax system appear more progressive than it is in practice. We are currently working with new data sources to quantify these effects and plan to publish our initial findings in 2027.

3 Reforming taxes at the top

In this section, we outline four important personal tax reforms that would reduce the disparity in tax rates across individuals with otherwise similar remuneration and remove many of the key economic distortions that affect those at the top. Some of these measures would also raise significant revenue, although this does not imply that taxes must rise overall. The revenue raised could instead be used to reduce the deficit, cut other taxes, introduce targeted reliefs to fix specific market failures or redistribute taxes amongst those at the top, as we propose through the removal of the childcare entitlement threshold.

In each case, we provide our best estimate of each reform's impact on revenue using administrative microdata from HMRC.⁸

3.1 Structural reform and equalisation of CGT

The current CGT system is needlessly complex, inefficient, and unfair. As we set out in Section 2, taxing capital gains at lower rates than income primarily benefits those at the top of the distribution. This distorts economic decision-making by incentivising taxpayers to convert income into capital gains.

The CGT base also contains structural leaks that allow taxpayers to avoid paying CGT altogether, namely by holding assets indefinitely or by emigrating ahead of making a disposal; in both cases these distort the timing of investment choices. At the same time, the absence of an investment allowance for inflation or borrowing costs and the asymmetric treatment of capital losses disincentivise genuine investment.

In [Advani, Lonsdale and Summers \(2024\)](#) we set out a comprehensive policy package for CGT reform to address the shortcomings of the current system. Our recommendation consists of five distinct policy changes:

1. Equalisation of CGT with Income Tax rates, reducing avoidance where people use companies to convert income into gains;

⁸ We have presented these reforms in previous CenTax publications, accompanied by full details of data and methods used. Unless stated, our methodology for modelling these reforms is unchanged from the previous approach but uses the latest available data and accounts for the current policy environment. Therefore, we have not reproduced our detailed methodology for each reform in this report.

For 'revenue raising' reforms, proposed in 3.1, 3.2 and 3.3, we take 2020 as our base year of data for our modelling as this represents the best representative year available as it is the last full year of data before the COVID-19 pandemic. For reforms to the childcare threshold at 3.4 we use 2022 as we could not identify a clear COVID-19 effect, and there was richer data available on childcare accounts.

2. Introduction of an investment allowance for the risk-free rate, thereby improving investment incentives whilst reducing the number of taxpayers liable to pay CGT;
3. Removal of uplift at death, which currently allows assets held until death to escape tax, distorting investment incentives;
4. Introduction of rebasing on arrival and deemed disposal on departure, which ensures that the gains people make whilst living in the UK are always taxed in the UK, removing the ability to leave without paying;
5. An increase in the generosity of the treatment of losses, giving more support for genuine risk-taking by ensuring that government shares in the downside as well as the upside from risky investments.

We use administrative data from HMRC to cost the first four elements of this policy package. We have subsequently updated this modelling to account for changes at recent budgets that impact our baseline scenario, most notably Autumn Budget 2024, which raised the main CGT rates to 18% and 24%, increased the BADR rate to 18%, and removed carried interest from the CGT base.⁹

This reform would result in a 62% increase in revenue. This is down from the 88% increase we estimated in Advani, Lonsdale and Summers (2024), reflecting recent increases in CGT rates, and the removal of carried interest from the CGT base.

It equates to £19.7 billion of additional revenue in 2030 given the current Office for Budget Responsibility (OBR) baseline forecast of £32 billion for CGT.¹⁰ This forecast is double the £16 billion that OBR forecast for 2026 which we used in Advani, Lonsdale and Summers (2024). The increase in the forecast is the primary driver of the higher implied CGT revenue (£19.7 billion now, vs £14 billion then), even though the proportional rise from reform is now lower.

Any estimate of this kind also depends on assumptions about how taxpayers will respond. Our central estimate uses elasticities drawn from the best available international evidence. It also reflects the fact our package reforms the CGT base at the same time as increasing the main rate. This closes the routes through which taxpayers would usually avoid paying CGT in response to rate changes, such as holding on to assets until death or

⁹ The latter two changes were fully implemented in April 2026.

¹⁰ OBR, 2026

leaving the UK before disposal. Therefore, we estimate that the behavioural responses would be smaller than simply increasing CGT rates on the existing base.

On a static basis, 19% of the additional revenue from our proposed reform comes from taxpayers who are already in the top 0.1% of the income distribution before accounting for their capital gains. However, 70% comes from those who are in the top 0.1% when considering average total remuneration over the past five years. The biggest losers from the reform are those who currently obtain large gains but have put little or none of their own capital at risk. This includes business owners who receive returns on their labour via a company. To the extent that business owners have invested their own capital in the company, they would benefit from the investment allowance, and all taxpayers receiving gains below the risk-free rate would no longer find themselves liable for CGT. Genuine risk-taking would be further supported by improvements to the loss regime.

There are strong arguments that, overall, our proposed package of reforms would enhance growth and productivity. This relies crucially on the reforms to the tax base that we are proposing alongside an increase in rates. Equalisation of CGT rates with Income Tax would reduce distortions to people's choices about how to work, by removing the incentive to repackage labour income as gains via company structures. Introducing an investment allowance for the risk-free rate of return would remove the disincentive to make investments that would have been unprofitable (after tax) under the current system. Improving the tax treatment of losses, so that government takes its share of the downside as well as upside of risky investments, would also reduce disincentives to risk-taking.

The fact that gains held until death or emigration are currently exempted from CGT means that individuals have an incentive to hold on to assets longer than is economically efficient. The removal of uplift at death and introduction of rebasing on arrival and deemed disposal on departure would remove these damaging 'lock-in' effects. By closing down these major 'leaks' in the tax base, some people would decide it was no longer worth holding on to assets just to save CGT, improving the allocation of capital in the economy.

We emphasise that these reforms must be implemented as a package. We would actively advise against equalising CGT rates with Income Tax (or even significantly increasing CGT rates) without also implementing the structural reforms to the tax base comprised in the other elements of the package. Taken as a package, this would raise significant revenue. Some of the money

raised could be used to fund new targeted CGT reliefs for specific groups and/or activities, where a market failure is identified that could be resolved in this way.

3.2 Taxing partners and employees equally (NICs on partnerships)

The UK's outdated NICs system also leads to stark differences in how earnings are taxed according to their legal source. Gross employment income is subject to a headline rate of 15% for Class 1 Secondary NICs ('Employer NICs') yet no equivalent charge is applied to partnership profits. This results in a significant advantage for earnings taken as partnership profits and distorts taxpayers' decisions on how to work. In addition, the benefits of this tax break disproportionately go to the highest earners. Partnership profits are amongst the most unequally distributed forms of remuneration in the UK, with nearly half (46%) accruing to the top 0.1% of the income distribution in 2020.

In [Advani, Gazmuri-Barker, Lonsdale and Summers \(2025\)](#) we modelled the introduction of an Employer NICs equivalent for partnerships. This reform is intended to reduce the tax wedge between income received from different business types, thereby bringing the tax system closer to neutrality. Our recommendation involves introducing a "top-up" tax that would bring the marginal Income Tax rates on partnership profits in line with the effective rates on employment income after accounting for Employer NICs.

Importantly, this top-up rate is significantly lower than the headline rate of Employer NICs (15%) for two reasons. First, the effective rate of Employer NICs is 13.04% rather than 15%, when expressed as a percentage of the employee's gross income (payroll cost). Second, Employer NICs reduce the taxable income on which Income Tax and Employee NICs are due, which mitigates their impact on the employee's overall effective rate. In practice, the effective top-up rates are 6.9% on partnership profits taxed at the additional rate, 7.6% for those taxed at the higher rate, and 9.6% for those taxed at the basic rate.

Consistent with the existing Employment Allowance of £10,500 per employer for Employer NICs, we recommend the introduction of a Partnership allowance that would act as a credit towards the first £10,500 of each partnership's NICs liability. Likewise, our proposal includes an annual exempt amount of £5,000 for each partner that mirrors the existing £5,000 Secondary Threshold for employers, below which no Partnership NICs would be payable.

Our updated central revenue estimate, after accounting for behavioural responses, for the introduction of an equivalent to Employer NICs on partnership income is £2.1 billion in 2030. As with CGT reform, we use elasticity of taxable income parameters from the modern economics literature, which we discuss in the original report.

Since partnership income is highly concentrated at the top of the income distribution, almost all (98%) of the revenue from the proposed reform would come from individuals in the top decile by total income, with 58% from the top 0.1% alone. Together, partners in the top decile of total income would account for over 70% of all taxpayers affected by the reform. On the other hand, those in the bottom 50% of the distribution of total income make up just 9% of the affected population and would contribute less than 0.5% of total revenue.

This reform would make operating a partnership less attractive relative to operating a company and would limit the tax benefit from being a partner rather than an employee within a partnership. As we discussed, both of these mechanisms would improve allocative efficiency and enhance growth. A neutral tax system would neither incentivise nor disincentivise particular ways of working or of organising a business, and our reform moves the system in that direction.

Table 1: Share of revenue raised from NICs on partnerships, by income distribution

Income group	Share of revenue raised	Share of affected population
Bottom 50%	0.40%	8.75%
50% - 60%	0.16%	2.51%
60% - 70%	0.19%	2.50%
70% - 80%	0.36%	4.15%
80% - 90%	1.00%	11.77%
90% - 99%	11.53%	40.30%
99% - 99.5%	9.39%	11.58%
99.5% - 99.9%	19.44%	12.09%
Top 0.1%	57.52%	6.36%

Source: Authors' calculations based on HMRC administrative datasets

3.3 Equalising the taxation of investment income

Another anomaly with the NICs system relates to the taxation of investment income. An employee pays Employee NICs on their employment income with their employer paying Employer NICs, whilst someone with the same income from letting a property or from savings interest only pays Income Tax. The Income Tax rates paid also differ, as savings, property and dividend income are each taxed at their own set of rates. This creates horizontal inequity between people at the same level of remuneration, depending on how that remuneration arises.

At Budget 2025 the Government increased Income Tax rates on savings, property and dividend income. This narrows the gap to employment income. However, it does not get to full equalisation.¹¹

¹¹ The basic, higher and additional rates of Income Tax on savings and property income will each increase by 2 percentage points from 6 April 2027, to 22%, 42% and 47%, respectively. The ordinary and upper rates of Income Tax on dividend income increased by 2 percentage points from 6 April 2026, to 10.75% and 35.75%, respectively, whilst the additional rate is unchanged at 39.35%. The savings and dividend changes apply UK-wide. The property income changes create a new rate that applies to taxpayers in England, Wales and Northern Ireland. See HM Treasury, *Budget 2025*, November 2025.

In [Advani and Summers \(2025\)](#) we estimated, amongst other reforms, the revenue from applying an equivalent of Class 1 NICs to profits from rental income, savings income (outside of ISAs), and other non-dividend investment income.¹² As with other reforms, we have updated this estimate using the latest available data. On a static basis, so before accounting for behavioural responses, we estimate this would raise up to £3 billion, £0.6 billion and £0.4 billion respectively in 2030.¹³ This involves an additional charge to the marginal tax rates applied to these types of investment income that would bring their rates in line with the effective rates on employment income.

The concentration of investment income at the top of the distribution means that these reforms would disproportionately fall on high-income taxpayers. In the case of property income, 45% of additional revenue would come from the top 10% whilst 6% would come from the bottom 50% of the distribution. These figures are 69%/4% for savings income and 74%/4% for other non-dividend investment income.

In the case of property income specifically, we do not include any adjustment for reintroducing a mortgage interest deduction as some have argued for. The current tax base for rental property overtaxes some landlords by not allowing them to fully offset the cost of financing. As a matter of policy design, the appropriate solution is an allowance for the opportunity cost of borrowing for investment, rather than relief only for those with an outstanding mortgage on investment property.

This allowance could either be provided annually as a deduction against rental income, or accumulated and given on disposal against the gain. We account for this as part of our CGT reform in Section 3.1 through an investment allowance for the risk-free rate, which provides relief on disposal. If such an allowance were not introduced as part of CGT reform, there is a case for including it as part of reform to property taxation, although having it only for property would distort investment choices between property and other businesses.

¹² Other non-dividend investment income comprises largely of life insurance income and income from trusts and complex financial instruments.

For completeness we note that we do not consider reforms to the taxation of dividends, since the combined Corporation Tax and dividend rates of Income Tax are already close to the rates of Class 1 National Insurance Contributions and main rates of Income Tax, except for at the Basic Rate. There is also some uncertainty about what Corporation Tax rate would be appropriate to use.

¹³ As they are static estimates they are naturally at the upper bound of the actual expected revenue.

3.4 Rebalancing tax rates amongst top earners

The reforms outlined above do not necessarily need to be used to raise more tax from those at the top overall. Instead, the revenue from these policies could be put towards rebalancing tax rates amongst top earners. The most straightforward way of doing this would be to use new revenues to cut the Additional rate of Income Tax, which applies to all top incomes but especially affects high-earning employees for whom salary is the largest source of taxable remuneration.

An alternative approach could be to focus on individuals who are currently facing the highest marginal rates due to anomalies in the tax system, as these rates are likely to be the most distortive to work incentives. The clearest example of high marginal rates comes from the childcare cliff-edge, which we examine in [Advani, Flew, Pepin-Hall and Summers \(2026\)](#).

Since 2010, all parents of 3- and 4-year-olds in England have been able to claim 15 hours a week of free childcare funded by government for 38 weeks of the year. Since 2017, working parents of 3- and 4-year-olds have been able to claim a further 15 hours, provided that certain conditions are met. These include the requirement that neither parent expects to have income above £100,000. Families with a parent whose expected income is above £100,000 – after adjustments such as for pension contributions and charitable donations – face the prospect of losing access to some or all of their free childcare, potentially leaving them worse off overall. This childcare ‘cliff-edge’ is in addition to and, for those affected, more severe than the withdrawal of the Personal Allowance for Income Tax, which also starts at £100,000.

The childcare cliff-edge has been widely criticised for discouraging work and creating incentives that hold back economic growth. Our work provides the first detailed evidence on who is affected by the withdrawal of free childcare, how they respond, and how much it would cost to remove this cliff-edge by making the free childcare entitlement available to parents with incomes over £100,000, or other options short of this.

In 2022 – the most recent year for which data are available – we find that around 1,100 parents in England held their incomes below £100,000 in response to the cliff-edge. Despite this observed ‘bunching’, amongst all the parents who would be financially better off staying below the threshold to retain access to free childcare, most did not. In 2022, fewer than one in ten employees with eligible children responded to the cliff-edge by holding their income down, rising to about three in ten amongst the self-employed and owner-managers. Whilst the overall population of non-employees is

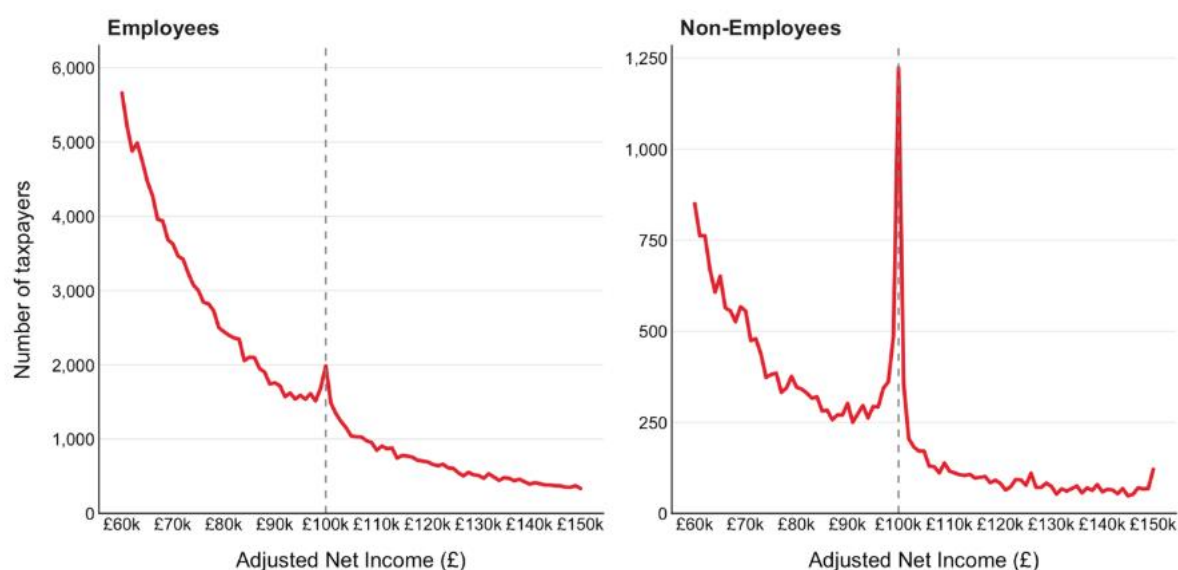
much smaller, the relative response of this group is much larger. So much so that there were more non-employees in absolute numbers bunching below £100,000 than there were employees. This is in line with existing evidence that the non-employees are more responsive in adjusting their incomes than employees.¹⁴

However, in 2022 the financial loss from not bunching was, for many parents, still relatively small compared to their overall income. Only one in ten were more than £4,000 worse off from just crossing the threshold. By the end of this parliament, that proportion will rise to eight in ten parents. Combined with the rise in the number of parents earning close to the threshold, the number of parents bunching due to the childcare cliff-edge will rise eleven-fold, from 1,100 in 2022 to 11,980 by 2030.

The childcare cliff-edge can affect the work incentives of both parents, not only the parent whose income is at risk of exceeding the £100,000 threshold. This is because amongst families who lose access to free childcare, some will choose to fill the gap with additional parental childcare rather than incur additional childcare costs. We find that this additional childcare is typically undertaken by mothers. Below £100,000 the share of parents whose partner is not in work is about 6%, but once income crosses the threshold it rises to about 9%. Almost all of that increase (90%) comes from mothers leaving work. The jump in non-working mothers at the point where their partner exceeds £100,000 income suggests the loss of childcare entitlement as a cause, with possible long-term consequences for those mothers' earnings.

¹⁴ For example, Saez (2010) and Adam et al. (2021).

Figure 7: Income distribution of English parents of 3- and 4-year-olds by main source of income, 2022



Notes: Income bins are £1,000 wide. Sample population includes all identified parents in England who have a child who is estimated to be eligible for the free childcare hours at some point during the 2022 tax year on the basis of the age eligibility rules. Employees refers to taxpayers whose main source of income is from employment, non-employees refers to the population whose main source of income comes from a source other than employment.

Source: Advani et al. (2026), Removing the £100,000 Childcare Cliff-Edge: Impacts and Cost of Reform

We then model a number of reform options that account for the increased incentive to hold down incomes arising from the expansions of the childcare entitlement, both in terms of the increase in the value of the entitlement and the number of parents covered.

The total cost of removing the £100,000 threshold is likely to be around £520 million in 2028, increasing to £640 million by 2030. However, if the recent expansion to free childcare made the cliff-edge more salient and parents even more responsive, the cost of removing the cliff-edge could be significantly smaller. If the number of unresponsive parents halved between 2022 and 2028, around four times as many parents would be bunching in comparison to our central scenario. In this case, or if unresponsiveness fell even further, removing the cliff-edge would be revenue-raising.

The entitlement to free childcare currently depends on each parent's Adjusted Net Income (ANI) for the year. This measure reflects the individual's taxable income after deducting any pension contributions or charitable donations that they have made. Using ANI allows some flexibility

for parents to avoid exceeding the threshold, than if the cliff-edge were based on their gross income before any deductions. Strikingly, we find that this means that one third (33%) of parents whose incomes were between £100,000 and £120,000 at the end of the year, nevertheless claimed and received some free childcare. If the Government wishes to keep an upper income threshold, it would be fairer and more coherent to use each parent's *actual* ANI for the year, rather than (what they say is) their expected income. A threshold based on actual ANI could be set higher (£111,000) than one based on expected ANI, at the same overall fiscal cost.

There are several options short of fully removing the childcare cliff-edge, which would be cheaper and reduce bunching, although would not solve all of the current problems. All are costed on an actual ANI basis.

- Remove the threshold for the first 15 hours of childcare for under-3s. This would halve the impact of the cliff-edge for parents whose only child in childcare is under 3, although there would remain some incentive to hold down income for all parents. This would cost around £210 million in 2030, in our central scenario.
- Increase the threshold at which entitlement to free childcare is withdrawn. This would reduce the number of parents affected by the cliff-edge, although would not reduce the incentive to hold down income for those above the new threshold. Raising the threshold to £125,000 or £150,000 would cost around £100 million or £250 million in 2030 respectively, in our central scenario.
- 'Taper' the withdrawal of free childcare instead of removing it entirely, for parents above the threshold. In our central scenario, a taper that deducted 8 pence from the entitlement for each pound earned over £100,000 would cost around £320 million by 2030, whereas a much steeper taper rate that deducted 28 pence is estimated to actually raise £20 million by replacing the current policy. A taper rate between these two options deducting 18 pence is estimated to cost £80 million.

4 Conclusion

The claim that personal taxes are already top-heavy rests on headline rates of Income Tax and NICs. However, this does not account for how much those at the top actually pay given that different sources of income are taxed differently. We show average tax rates on total income, accounting for this variation in rates, and also on total remuneration, which adds realised capital gains to income and CGT to the tax paid.

We find that those at the top pay a large share of personal taxes, but less so once capital gains are included. The top 10% received 40.5% of total taxable income and paid 60% of Income Tax and NICs. Adding realised capital gains raises their share of remuneration to 43.9%, but their share of tax paid only increases to 61.5%.

We also find that those at the very top can pay vastly different rates to one another, but few are paying the headline Income Tax and NICs rates. Among the top 0.01%, one in ten pays close to the headline rate of 47%, whilst a quarter pay 20% or less. Recent changes to CGT rates and reliefs mean this lower threshold is likely to have risen to 23%.

Structural problems in the tax system change taxpayers' behaviour in ways that negatively affect us all. They mean that the tax system drives decisions about work and investment that would not otherwise be made, reducing total income in the economy as a whole.

Fixing some of these problems by implementing the four personal tax reforms described would make the tax system fairer by treating equally people who work in similar ways and removing some of the distortions we currently see. Some of these reforms would also raise revenue. Most of the additional tax would come from people realising large capital gains, partners in professional firms, and those with substantial investment income.

The Government can then choose how to use this revenue, something that we do not take a view on here. It could fund public spending priorities. It could be used for broad based tax cuts. It could rebalance taxes within the top, reducing the highest marginal rates some people currently face, such as those created by the childcare cliff-edge – which we estimate to cost £640 million by 2030. It could reduce the deficit. Or it could do some combination of these.

However, leaving the structure of the tax system at the top unchanged has consequences, because the current distortions remain, and the same money needs to be raised from somewhere else.

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Appendix A: Data and methodology for Section 2

We use administrative tax data from the UK tax authority (HMRC). These data are collected from the universe of personal tax returns filed for tax years 2008 to 2022, supplemented by data from HMRC's 'Pay-As-You-Earn' (PAYE) withholding system. By combining the data from tax returns and PAYE records, we obtain full coverage of the universe of UK taxpayers. In our analysis, we only include individuals who were tax resident in the UK in the relevant year, excluding individuals who filed as non-resident. The tax unit for Income Tax in the UK is the individual.

Individuals who file a personal tax return are required to provide information on both their income and realised capital gains. Individuals are typically only required to report income and capital gains that are 'assessable' for tax, meaning effectively sums that are within the scope of the relevant taxing legislation and not entirely exempt. Consequently, for reasons of data availability, the definitions of income and gains that we use for computing EATRs in our main analysis exactly track the administrative definitions of what is taxable, and shares of total income represent shares of taxable income.

Taxable income includes earnings from employment, trading profits from unincorporated businesses (sole traders and partnerships), and all taxable income from savings and investments, for example, interest, rent, dividends, and other investment income such as gains in life insurance policies. For tax purposes, capital gains are assessed on realisation (i.e. when an asset is sold) and broadly are computed as the difference between the cost of the asset when it was acquired and its value on disposal (i.e. sale or other transfer).

The following summary describes the tax rates applying in 2022, the final tax year covered by our data. Where relevant to those at the top of the distribution, we have referenced significant subsequent changes to these rates in footnotes.

The statutory tax rates applied to income depend on its type. Earnings from labour (i.e. employment and trading profits from unincorporated businesses) were liable to Income Tax at a marginal rate of up to 45 per cent,¹⁵ plus NICs of 2 per cent above the relevant upper earnings or profits limit. Investment income from interest, rent, and other sources (excluding dividends) was generally charged the same rate of Income Tax, but no NICs

¹⁵ 46% in Scotland in 2022. This rose to 47% in 2024, and 48% since 2025.

were payable.¹⁶ Dividends were charged at lower rates of Income Tax (up to 38.1 per cent), and were similarly exempt from NICs.¹⁷

Capital gains were much more lightly taxed than income, with rates varying between 10 and 28 per cent depending on the type of asset and the income of the taxpayer. The main rates of 10 and 20 per cent applied to most chargeable gains, including listed and unlisted shares, tangible assets such as collectibles, and intangible assets such as business goodwill and intellectual property.¹⁸ Residential property gains not covered by Private Residence Relief were taxed at 18 or 28 per cent.¹⁹ The same rates applied to the 'carried interest' of fund managers where it was taxed as a capital gain.²⁰

Gains qualifying for BADR, including qualifying disposals of unincorporated businesses and shares in trading companies, attracted a tax rate of 10 per cent. BADR was subject to a lifetime limit of £1 million of qualifying gains. Previously known as Entrepreneurs' Relief, it was renamed from 6 April 2020, following a reduction in the lifetime limit from £10 million to £1 million at Budget 2020.²¹

¹⁶ From 6 April 2027, the higher and additional rates on savings income will increase from 40 and 45 per cent to 42 and 47 per cent respectively. Separate property income rates will be introduced at the same levels. The savings changes apply UK-wide; the property changes apply to taxpayers in England, Wales and Northern Ireland.

¹⁷ The upper and additional dividend rates increased from 32.5 and 38.1 per cent to 33.75 and 39.35 per cent respectively from 6 April 2022. From 6 April 2026, the upper rate increased further to 35.75 per cent, whilst the additional rate remained unchanged

¹⁸ The main CGT rates increased from 10 and 20 per cent to 18 and 24 per cent respectively for disposals from 30 October 2024.

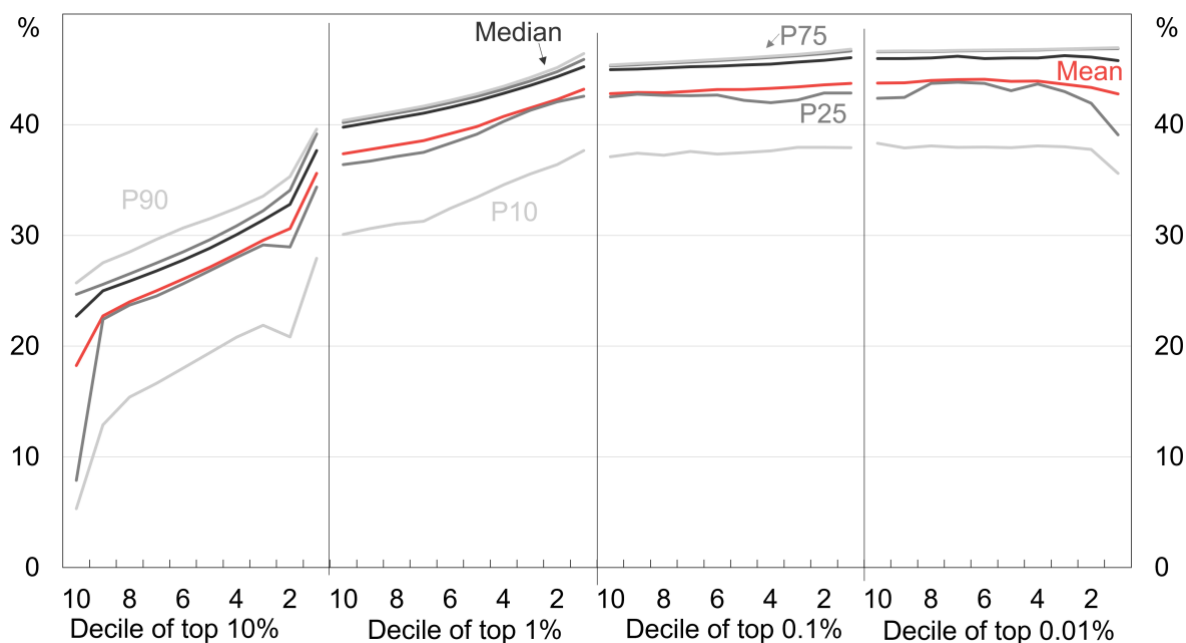
¹⁹ The higher rate on residential property gains fell from 28 to 24 per cent from 6 April 2024.

²⁰ From 6 April 2025, the CGT rates applying to carried interest were replaced by a single rate of 32 per cent. From 6 April 2026, carried interest moved into the Income Tax framework, the majority being treated as trading profits.

²¹ The BADR rate increased from 10 to 14 per cent from 6 April 2025, and to 18 per cent from 6 April 2026.

Appendix B: Further findings

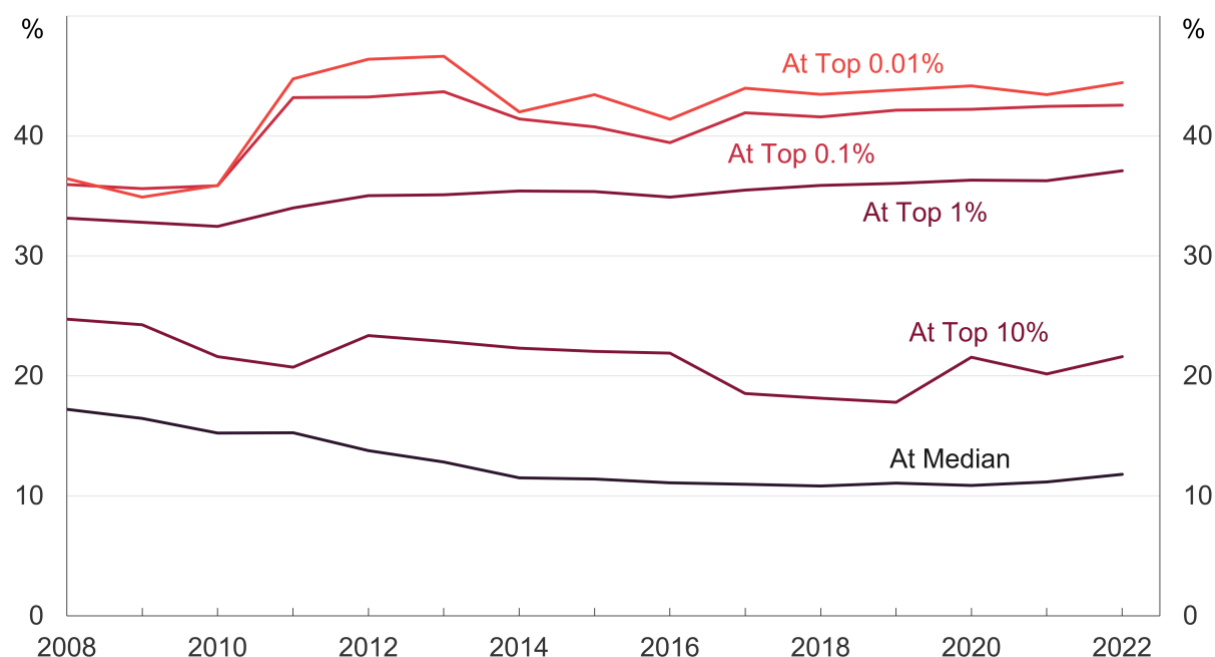
Figure B1: Distribution (mean and percentiles) of EATRs by total income, 2022



Notes: 'Mean' shows the average (mean) EATR for UK taxpayers (all UK residents with a tax record) at different levels of taxable total income. 'Median' shows the median EATR at different levels of income, and 'PXX' shows the XXth percentile of EATR at any given level of income. To make it into the top 10% of UK taxpayers, an individual would have needed £50,800 in 2022. To make it into the top 1% or top 0.1% or top 0.01%, they would have needed £160,000 or £653,000 or £2,832,000 respectively.

Source: Authors' calculations based on HMRC administrative datasets.

Figure B2: Average EATRs for individuals earning median incomes and at top fractiles of the income distribution, 2008–2022



Notes: 'Median' shows the average (mean) EATR for UK taxpayers (all UK residents with a tax record) earning within 1% of the median of total income in each given year. 'At Top X%' shows average EATR for individuals within 1% of the corresponding percentile of income (90th percentile for Top 10%, 99th for Top 1%, 99.9th for Top 0.1%, and 99.99th for Top 0.01%). The average EATR is for individuals at that specific point in the distribution, not everyone above it. To be at the top 10% of UK taxpayers, an individual's total income would have needed to be within 1% of around £50,800 in 2022. To be at the top 1% or top 0.1% or top 0.01%, their total income would have needed to be within 1% of around £160,000 or £653,000 or £2,832,000 respectively.

Source: Authors' calculations based on HMRC administrative datasets