Our tax system is so misguided that it doubles the cost of employment and government spending, as the bar chart shows. The topmost bar is for those with a nominal salary of £10,000 per year; the division is into percentages. For each line of gross salary the length of the line is the total cost to the employer, including employers’ National Insurance contributions. The blue portion of each line is the amount received by the employee, minus indirect taxes, such as VAT; it represents real wages. The effects are capricious. Those with salaries of £25,000 are affected hard, as again are those with salaries of £50,000 and more. Top managers and executives are also a heavy cost to their employers.

Direct taxes are calculated from tax tables. Indirect taxes are taken from an ONS paper “The effects of taxes and benefits on household incomes 2016/17 table 16”. Some judgement has been used to match the two sets of figures.

Here are some suggestions as to the possible real effects of this situation

1. There is a sharp distinction of the view of wages from the points of view of employers and employees.
2. There is constant impulse to replace people by machines.
3. Unemployment is a constant factor in the economy.

4. The effect of taxation at the margin is to kill off economic activity which might otherwise have been viable, leading to increases in tax so as to mitigate those effects. This maintains a vicious cycle.

5. In the cycle of production, employment based taxation rolls up until it is paid by the final consumer. The consumers’ gross pay has to be sufficient to pay the taxes and leave enough to live on.

6. Government expenditure is mostly wages, and is thus doubled under the same rules.

7. In order to cover the cost, an employee has to be able to add value to an amount twice what is needed to live on.

8. Those who cannot meet this criteria will likely find their jobs at risk, if, indeed they can find any employment at all.

Although the UK is by no means the worst example (Sweden is probably at the bottom of the league) the disadvantages suffered in comparison to countries that do not tax wages so highly must be huge. It is, in fact, a 100% tax on wages!

This information was prepared by Tommas Graves and originally appeared in the Autumn 2019 edition of “Land and Liberty”