CHASM | Centre on Household Assets and Savings Management

Briefing Paper
Should we introduce a (temporary) wealth tax?

In August 2012, Nick Clegg suggested that a temporary wealth tax was needed to help tackle the budget deficit at a time of economic crisis. Almost instantly, critics of the idea, like Bernard Jenkin MP, argued that this proposal stemmed from the 'politics of envy' and would create a disincentive to wealth creators who would then leave the country. Mr Jenkin stated, furthermore, that the wealthy were already paying far more tax than others.

Discussions about wealth taxes often generate more heat than light. While it is true that, in absolute terms, the rich pay more tax, this is not true in proportional terms. It is actually the bottom 20 per cent who pay a higher proportion of their income in tax than any other group. This is primarily due to indirect taxes like VAT. But some rich people also turn some of their income into capital in order to pay a lower rate of tax through Capital Gains Tax than they would have to pay in income tax. George Osborne, the Chancellor of the Exchequer, in his emergency budget in June 2010, pointed out that: 'S*ome of the richest people in this country have been able to pay less tax than the people who clean for them*." He reformed Capital Gains Tax to some extent to tackle this issue but much more significant reform would be needed to ensure that those with greater income and wealth pay a similar, if not higher share, of taxation.

So what options are there for wealth tax reform? The Liberal Democrats are currently proposing to introduce a 'mansion tax' on properties worth over £2 million. This tax has also drawn criticism from the right and is not supported by their coalition partners in the Conservative party. For example, in a pamphlet for the Centre for Policy Studies, Lucian Cook asks us to '*consider the plight of the low-income widow whose family prudently saved for years to buy the property of their dreams. It is difficult to envisage a case in which forcing her out of that home, because of an inability to pay this new tax could be fair. And there are plenty of people in this category'.* Once again, this produces more heat than light and there are actually very few people in this category. Indeed, only 4% of those who were retired in 2010 had both an income below the official poverty line[1] and housing equity over £100,000 - not anywhere close to a mansion tax level of £2m. Moreover, the Liberal Democrats have suggested that where there are any widows or widowers who might struggle with the tax they can roll it up and pay it when they die.

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[1] below 60% of median income, equivalised for different household types

Rather than introducing a mansion tax, however, we could reform council tax to make it more progressive. Or we could replace it with an annual property or land value tax or a more comprehensive wealth tax. Such taxes have been proposed at various points in the past but face political and practical challenges. For example, what should the taxable unit be: individuals, couples, families? What about trusts? Which assets would be charged (housing, savings, pensions, possessions)? How would wealth be valued? And how often? What would be the threshold(s) and rates for a wealth tax? And how much would it cost to be administered?

The debate on this has most recently been revived by the Mirrlees review of taxation which argued that the government should consider replacing council tax and stamp duty with a more progressive tax proportional to the current value of housing. Mirrlees also called for inheritance tax to be replaced by a more progressive and comprehensive lifetime wealth transfer tax. We could also look overseas for examples of wealth taxes, like France's Solidarity Tax, which is annual tax on those with wealth over 1.3 million Euros. This tax dates back to the 1980s but the name conjures up ideas about citizens being 'all in it together'.

The political and practical challenges for any reform cannot be underestimated but some concerns, for example that hordes of entrepreneurs would leave for Dubai, are not generally taken seriously as Howard Davies, former deputy governor of the Bank of England, has made clear. Whatever the challenges, the size of our current economic problems and the extent of wealth inequality in the UK suggest action is needed. The top 10 per cent own one hundred times more than the bottom 10 per cent, and the top 1 per cent own over a fifth of all wealth. Rather than kneejerk proposals and kneejerk criticisms we need an open debate, drawing on strong evidence. And this is exactly the debate that CHASM's Policy Commission on the Distribution of Wealth will be initiating when it is launched in the autumn this year at the Conservative party conference. Watch this space.

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September 2012