#Buildbackbetter for personal financial wellbeing - insights into policy development priorities for a post Covid-19 environment

Briefing Paper BP10/2020

Is it time for a UK wealth tax?

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September 2020

The COVID-19 pandemic has led to a raft of new policies to protect jobs and livelihoods as economic activity collapsed. The scale of these interventions, and the speed with which new administrative systems have been designed to support them, would have been unthinkable only a few months ago. The crisis has simultaneously exposed cracks in the social fabric and deficiencies in our public services following a decade of real-terms cuts. The need to put these services on a sustainable footing, and a general sense that the world has changed radically, means there has rarely been a more urgent or opportune moment to 'think big' on tax.

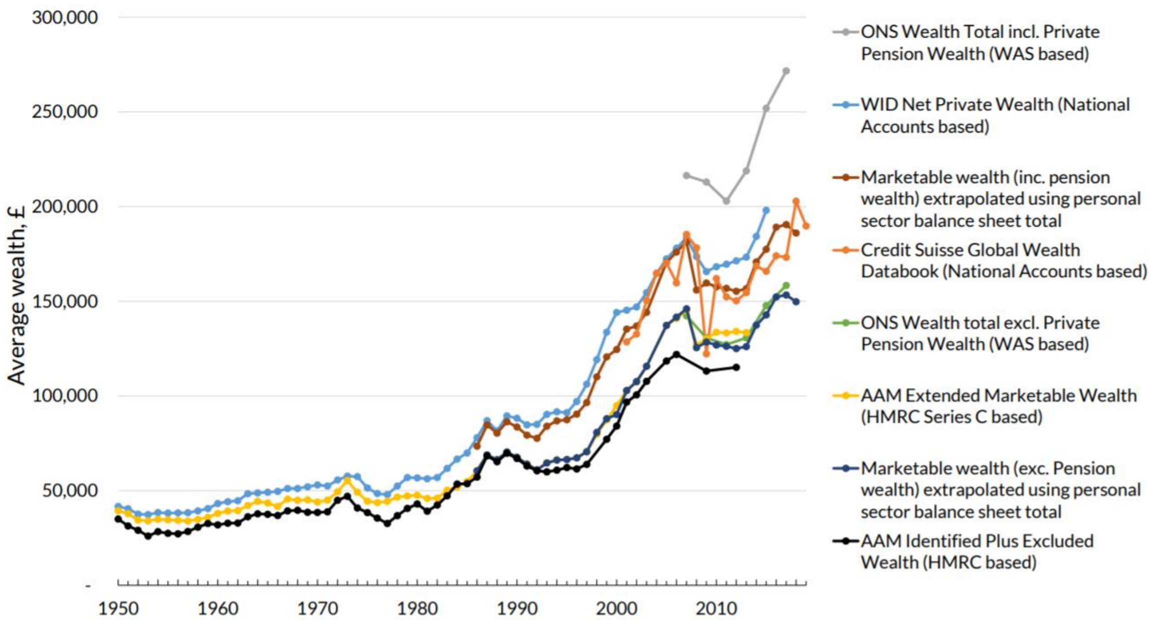
Even before the current crisis there were widespread calls to tax wealth more. In the UK, these proposals have so far focused on reforming our existing taxes on wealth. However, other countries have begun to raise the idea of introducing a wealth tax—a new tax on ownership of wealth (net of debt). COVID-19 has rapidly pushed this idea higher up political agendas around the world, but existing studies fall a long way short of providing policymakers with a comprehensive blueprint for whether and how to introduce a wealth tax in the UK.

Critics point to a number of legitimate issues that would need to be addressed. Would it be fair, and would the public support it? Who would pay it, and on what wealth? How would it affect incentives, for example to save and invest? How would we value assets? What mechanisms would be available for those who have low incomes relative to their wealth? How much revenue could it raise? How would it impact wealth inequality and the creation of wealth? Is there any need for a wealth tax in addition to existing taxes? And would the public support it?

These are important questions, without straightforward answers. The UK government last considered a wealth tax in the mid-1970s. This was also the last time that academics and policymakers in the UK thought seriously about how such a tax could be implemented. Over the past half century, much has changed in the mobility of people, the structure of our tax system, the availability of data, and the scope for digital solutions and coordination between tax authorities. Old plans therefore cannot be pulled 'off the shelf'.

Whilst COVID-19 has prompted a renewed interest in the idea of a wealth tax for the UK, there are also longer-term trends that explain why taxes on wealth have become a key issue over recent years. Figure 1 shows how average private wealth per adult has increased over time. Although there is some variation depending on the definition of wealth and the data sources used, there is overall a striking upward trend. In real terms, average wealth has more than tripled on most measures since the 1980s.

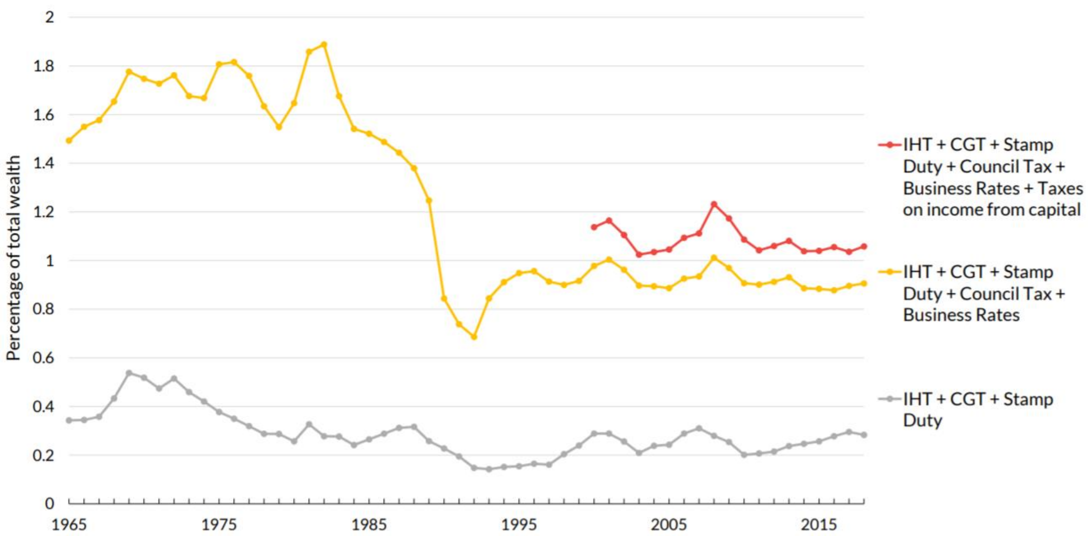
FIGURE 1: TOTAL UK WEALTH PER ADULT (18+) AT CONSTANT 2015 PRICES



Notes: Constructed using total wealth series taken from various sources including the ONS, based on the Wealth and Assets Survey; World Inequality Database (WID), based on the National Accounts; HMRC (Marketable wealth, Series C), extrapolated from 2005 using year-to-year variation in personal sector balance sheet wealth; Credit Suisse Global Wealth Databook, based on the National Accounts; Alvaredo, Atkinson and Morelli (2018, AAM), based on (i) HMRC 'identified and excluded wealth' and (ii) HMRC marketable wealth (series C).
Source: ONS Total Wealth: Wealth in Great Britain; World Inequality Database; HMRC Marketable wealth (Series C); Credit Suisse Global Wealth Databook; Alvaredo, Atkinson and Morelli (2018).

During this period in which wealth has grown, the role of taxes on wealth have declined. Figure 2 [Figure 8 in project initial report] shows UK taxes on wealth as a percentage of wealth for the period since 1965. Again, the precise measure depends on definitional issues, in particular which of the UK's existing (and historical) taxes are classified as a 'tax on wealth'. However, whichever measure is used, the overall picture is of a decline in the role of taxes on wealth during the 1980s, and a relatively flat trend after that, during which time wealth was increasing.

FIGURE 2: UK WEALTH TAXES AS A PERCENTAGE OF TOTAL WEALTH



Notes: Constructed using data on total tax revenues and total wealth. IHT is Inheritance Tax. CGT is Capital Gains Tax. Control total is the net worth of the personal sector (Households and NPISH) from the UK National Balance Sheet.
Source: Authors' calculations based on OECD Revenue Statistics and the Blue Book 2019.

The short- and long-term factors require us to consider whether the UK has the right approach to taxing wealth, especially as the inevitable pressure on public finances necessities new thinking in tax policy. One set of options concerns reforms to existing taxes on the wealthy, such as Inheritance Tax, Capital Gains Tax, and Income Tax on investment income. There is a strong case to be made for reforms in these areas, but the arguments are mostly well-rehearsed. By contrast, there is a distinctive gap in our understanding of the role that a wealth tax might play in a post-COVID-19 UK.

Consequently, a new project was launched in July 2020 to investigate whether or not the UK should have a wealth tax, and if so, how to design it. The project is being led by Dr Andy Summers (Associate Prof in Law at LSE, and Associate at CHASM), Dr Arun Advani (Assistant Prof in Economics at Warwick) and Emma Chamberlain OBE (Visiting Prof in Practice at LSE). The research spans multiple academic disciplines: economics, law, social policy, and public administration. It also engages closely with barristers, solicitors, accountants and other tax professionals. No single discipline or profession can claim a monopoly of wisdom when it comes to designing tax policy.

The project has four key aims:

(1) First and foremost, the project aims to generate a new evidence base on the desirability and feasibility of wealth tax for the UK. Eleven 'core' evidence papers will address key issues in the design of a wealth tax, drawing on international experience and developing novel insights from adjacent fields.

(2) The project will also model the revenue and distributional impacts of a wealth tax for the UK, based on several reform options according to different design specifications and choices of rates and thresholds, including estimates that take account of how people might respond to the tax.

(3) Drawing on the new evidence base, the project will conclude with a final report providing policy recommendations to the UK government. If a wealth tax is recommended, the report will include a detailed design specification aiming to achieve a 'ready to legislate' proposal.

(4) A key dimension of the project is to communicate our findings to UK policymakers and the general public, and to international partners. Although our work is focused primarily on the UK for now, as the project develops, we would like to engage with policymakers around the world.

Readers can learn more about the project by visiting our website at www.ukwealth.tax. Alongside the final report, due to be published in December 2020, will we launch a new online tax simulator where visitors can see what effect different rates and thresholds would have on who pays the tax, and how much it could raise. In other words, building on our model, you can design your own wealth tax! If you're interested, then please do sign up via our website to find out more.

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11th September 2020

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