Initial Report

Is it time for a UK wealth tax?

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IS IT TIME FOR A UK WEALTH TAX?

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Foreword

The government faces some very difficult choices in the next few months and years. The deficit and the ratio of debt to GDP will reach levels not seen since the Second World War. There will be calls for the government to spend more on areas like health and social care, and to achieve its goals for "levelling up" and "building back better". At the same time, we will be entering a severe recession with large reductions in tax revenue, large increases in the number of people claiming unemployment and other benefits, and a big debt interest bill.

All these highly predictable developments will generate a debate about how to bridge the gap between revenues and spending. For many years we will end up borrowing huge sums, but we will also want to think about raising more from tax. Ideally this will involve a wide-ranging debate that considers tackling what were sacred cows. Some will need to be slaughtered but the question is which ones?

This project considers whether a net wealth tax should be part of the solution. My own view is that I have no idea of the answer to this question, but I am absolutely certain that it is vital to find out. Wealth taxes have been used by many countries in the past, so we have some international evidence on what has worked and what has failed. It is certainly the case that wealth has become more concentrated over the last thirty years. Aggregate private wealth is now also so large (over six times GDP) that even if set at a relatively low rate, a wealth tax could make a significant contribution to government revenue.

But is such a tax fair, and will any revenue raised be sustainable? What are the incentive effects? Will we drive wealth into tax havens or less productive uses? What problems will HMRC face in collecting the tax? Will other countries follow suit, and indeed should we be thinking about an initiative that is broader than just the UK? Presumably such a tax would need to apply across the whole of the United Kingdom, so how do we work with the devolved nations to ensure it works smoothly?

The alternative is to rule out any new taxes, but this ties our hands unnecessarily. The government has already committed not to raise a raft of existing taxes so its options are already quite limited. Some will argue that those commitments were made before the coronavirus crisis and should be put aside. I have some sympathy for that view, but that is a matter for the government to decide. In reaching such decisions I would urge them to follow the evidence.

This project will provide such evidence for a net wealth tax. It is being led by a team with the essential mix of skills in economics, tax law and administration, that will be needed to craft a credible proposal. They are taking advice – through a series of evidence papers – from some of the world's leading experts on tax policy. Whatever their recommendations, these papers and the final report should be required reading for my former colleagues in HMT and HMRC. I look forward to reading their conclusions.

Lord Gus O'Donnell

Cabinet Secretary and Head of the Civil Service, 2005-11; and
Former Permanent Secretary to HM Treasury

1. Introduction

Around the world, the unprecedented public spending required to tackle COVID-19 will inevitably be followed by a debate about how to rebuild public finances. At the same time, politicians in many countries are already facing far-reaching questions from their electorates about the widening cracks in the social fabric that this pandemic has exposed, as prior inequalities become amplified and public services are stretched to their limits. These simultaneous shocks to national politics inevitably encourage people to 'think big' on tax policy.

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.

Critics point to a number of legitimate issues that would need to be addressed. Would it be fair, and would the public support it? How would you stop the wealthiest from hiding their assets? Will they all simply leave? How can you even value some assets? What happens to people who own lots of wealth, but have little income with which to pay a wealth tax? And if wealth taxes are such a good idea, why have many countries abandoned them?

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'.

This project will evaluate whether a wealth tax for the UK would be desirable and deliverable. To do this we have commissioned a series of Evidence Papers that will study each of the key issues in detail (for a full list of topics and contributors see Annex A). We will draw on a network of world-leading experts, including authors from CAGE (University of Warwick), the Centre on Household Assets and Saving Management (CHASM, University of Birmingham), LSE International Inequalities Institute, the Institute for Fiscal Studies (IFS), the Institute for Government (IfG), Ipsos Mori, the Organisation for Economic Co-operation and Development (OECD), the University of Oxford, and the Resolution Foundation, as well as legal and accounting practitioners from around the world.

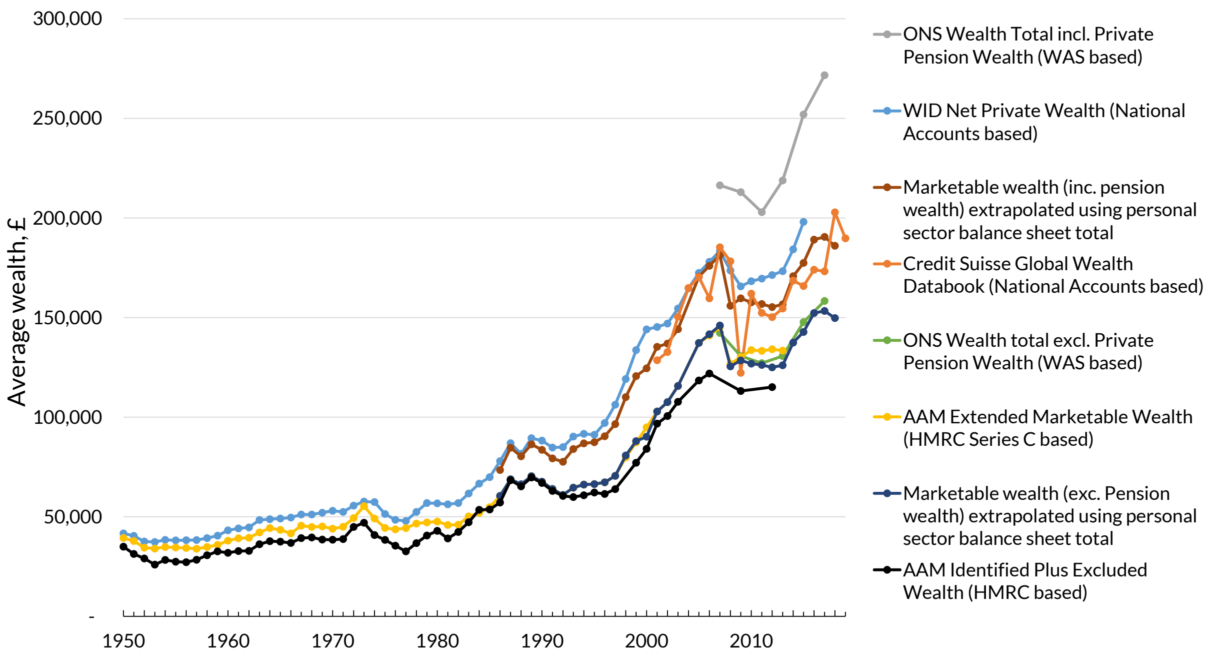
In this report we set out initial evidence on what has been happening to wealth and wealth taxation in the UK. We examine the provisional case for a wealth tax, and map some of the difficulties in implementing it. Our intention here is not to provide the answers, but to illustrate the key issues this project will address and set out the path to our final report in December, which will contain our conclusions on whether or not the UK should have a wealth tax, and if so, how it should be designed.

2. What has been happening to wealth in the UK?

Wealth is rising

The first key fact about UK (private) wealth is that it has been growing substantially over time. Wealth is harder to measure than income, and there is more argument about what assets one should include, but by any measure of wealth it has risen over the past 70 years (Fig. 1).[1] This rise is a reason some have become more inclined to tax wealth—there is much more money there to be taxed. But – as we describe later – the difficulties in measuring wealth create two of the key challenges for tax policy: first, one needs to be precise about what kinds of assets are covered by the tax; and second, one needs to think carefully about how such assets are valued.

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).

Wealth has started to become more concentrated again

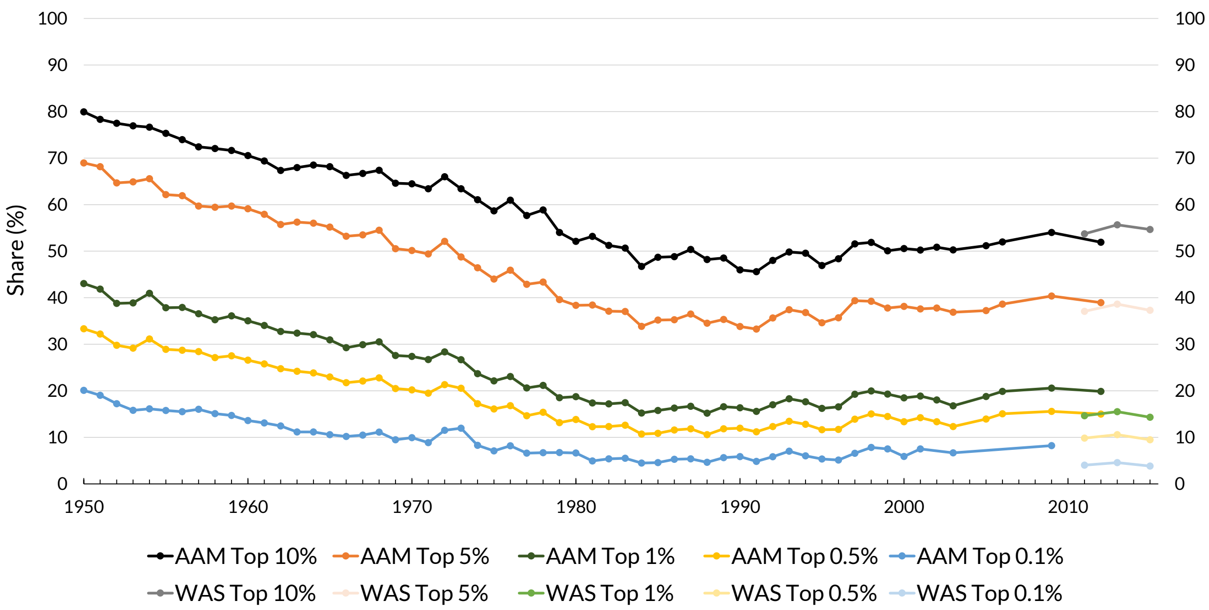
The share of wealth going to the richest fell between 1950 and the 1980s, but is now rising again (Fig.2). Atkinson, Alvaredo and Morelli (2018) estimate that the share of wealth going to the top 1% fell from 41% in 1950-54, to 16% in 1985-89, but had risen to 20% by 2012. As with the level of wealth, measurement is tricky since wealth is not taxed directly. But whether you look at surveys of wealth, inheritance tax records, or the Sunday Times Rich List, wealth shares have been rising at the top for at least the last 30 years. Although wealth has grown across the distribution, so that for the bottom 50% there was an 83% rise in real wealth between 1990 and

[1] By wealth here we mean 'net wealth'—the value of all assets less the value of all debt.

2005, for the top 1% real wealth doubled. The pattern appears starker further up the distribution: the total wealth held by the 1000 people as recorded in the Sunday Times Rich List has increased five-fold since 1997. Similar patterns of rising wealth inequality have been seen in other OECD countries, spurring calls for a wealth tax for redistributive purposes (Saez & Zucman, 2019a).

But a quick glance at the makeup of the Sunday Times Rich List highlights another difficulty of taxing wealth in the UK: some UK residents will not be UK citizens, and vice-versa; and their wealth may also include foreign assets. The Rich List also misses many of those whose wealth is held in private vehicles such as partnerships, trusts or foundations; it can only cover people who are happy to disclose their wealth, or those whose wealth is held in companies that have to disclose their profits on a public register. As we later set out, any proposal for a wealth tax therefore needs to deal carefully with issues of residency, domicile, citizenship, the location of assets, and disclosure.

FIGURE 2: SHARE OF UK WEALTH GOING TO PEOPLE AT THE TOP



Notes: 'AAM' series taken from Alvaredo, Atkinson and Morelli (2018), based on HMRC 'identified and excluded wealth'. WAS series constructed from the Wealth and Assets Survey waves 3-5. Population control totals taken from WID (World Inequality Database), based on the ONS mid-year population estimates.
Source: Alvaredo, Atkinson and Morelli (2018) for 1950-2012; authors' calculations based on Wealth and Assets Survey 2011-2015.

Increases in wealth have been driven by property and pensions

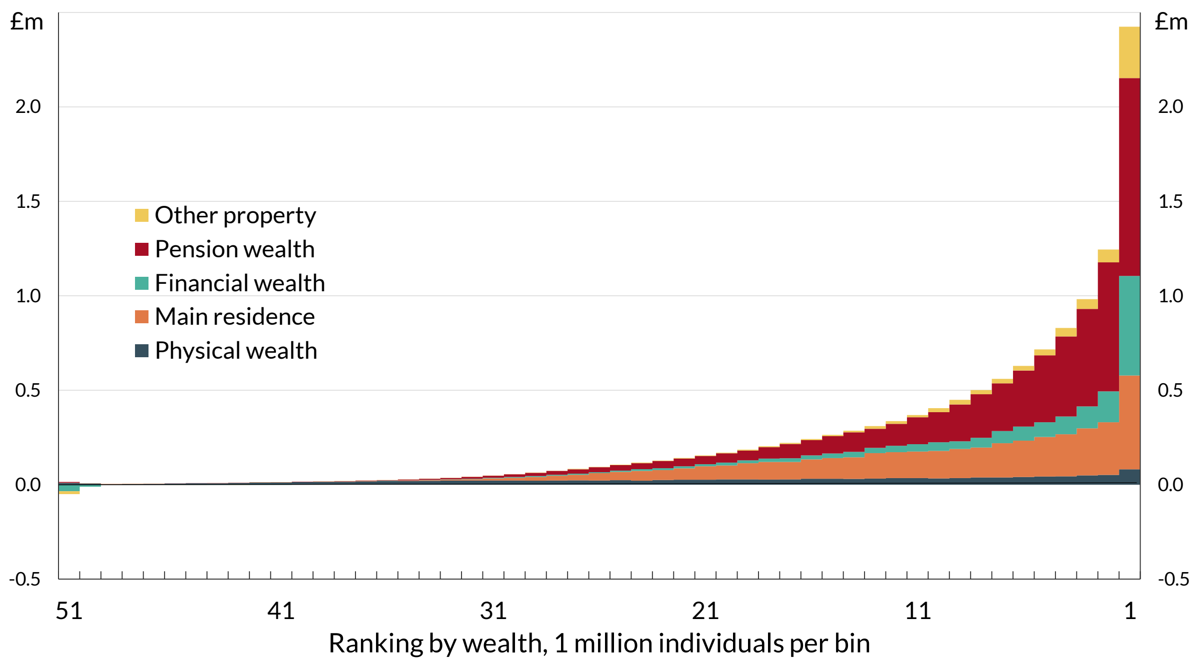
Rising wealth has been driven by growth in the price of property and the value of private pensions. These are also the two largest asset classes in UK wealth, respectively making up 35% and 42% of aggregate wealth (Fig. 3). The rise in housing wealth has primarily been driven by a rise in prices – rather than a rise in the number of homes – with house prices rising twice as fast as consumer prices over the last forty years. Rising pension wealth by contrast, has been driven by increased contributions, rather than purely asset price rises. These patterns raise three issues for a wealth tax.

First, a regular tax on wealth – more so than a one-off tax – would need to deal carefully with ability to pay. Housing wealth, even for those owning multiple homes, does not necessarily produce flows of income that can be used to pay a tax. This does not necessarily preclude taxing wealth, but underscores the need to think carefully about its design and practical administration.

A second important question for any wealth tax is whether different asset types would be treated in the same way. For example, pension wealth is (mostly) taxed at standard income tax rates when it is received as income, although individuals can take up to 25% as a tax-free lump sum or may be able to pass on the pension pot at death tax free. By contrast physical assets are (mostly) not taxed until disposal or death.[2] The case for, and size of, any wealth tax needs to be sensitive to other existing taxes.

Third, it is also important to highlight that these data come from surveys that are known to have poor coverage of the very richest, so will not capture some of the more exotic or harder to value assets that might be covered by a wealth tax, including movables such as fine art, or interests in trusts. Implementation of any wealth tax would need to solve the issue of how in practice to value all the asset types that are covered by the tax. It would also need to account for the risk that ignoring even small asset classes creates incentives for wealth to be transferred into these untaxed assets.

FIGURE 3: AVERAGE WEALTH PER ADULT (18+), BY ASSET CLASS



Notes: Constructed using data on wealth owned by individuals in 2014-16. Individuals are ranked by total wealth and grouped into bins of 1,000,000. Bars show democratic mean wealth within each bin, and breakdown of this by asset type.
Source: Authors' calculations based on Wealth and Assets Survey, wave 5.

[2] In fact, there are a range of different taxes, even for a single area such as residential property. Primary residences face only stamp duty land tax. Additional owner-occupied housing is also subject to capital gains tax. Rental properties are further subject to income tax on the rental income, so are taxed during ownership.

Some people have wealth that is many multiples of their income

Wealth has grown faster than income, so that wealth is a larger multiple of income than in the past. According to the national accounts, real personal income in 2018 was 1.5 times higher than in 1997; while real wealth was 2.1 times higher. High wealth-to-income ratios are especially prevalent among the wealthiest. Figure 4 shows how the wealth-to-income ratio varies among individuals in different deciles of the wealth distribution. The median wealth-to-income ratio rises slowly across the wealth distribution, but cases of very high wealth-to-income become much more common and increasingly extreme among the wealthiest.

This again emphasises the need to think carefully about how to handle cases where individuals have high wealth but relatively little cash to pay such taxes. Such problems are not insurmountable, and a variety of solutions have been used in other contexts, but they are not straightforward. It is also worth noting that for some proponents this is one of the major benefits of a wealth tax: it would ensure a larger contribution is paid by individuals who are extremely well-off by any normal standard, yet report relatively little taxable income.

FIGURE 4A: MEDIAN AND QUARTILES OF WEALTH-TO-INCOME RATIO AT DIFFERENT DECILES OF WEALTH

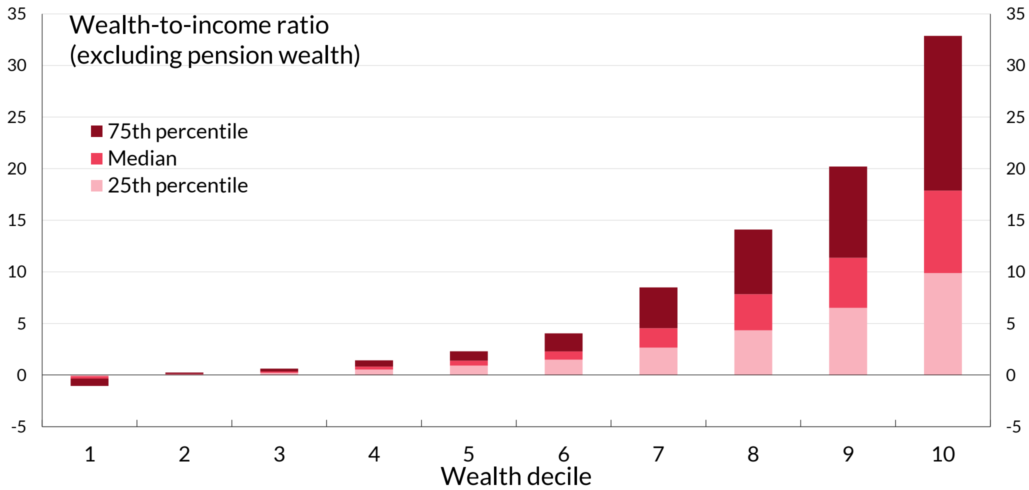
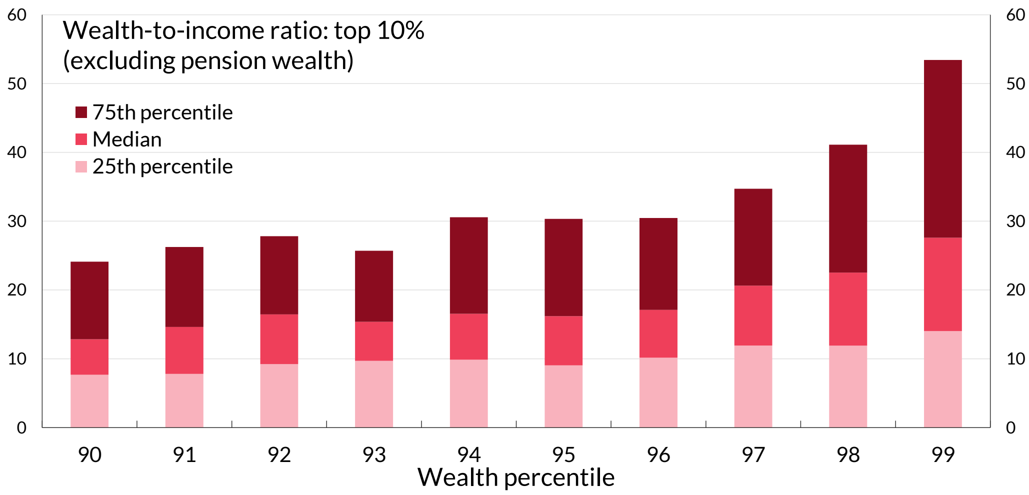


FIGURE 4B: MEDIAN AND QUARTILES OF WEALTH-TO-INCOME RATIO AT DIFFERENT PERCENTILES OF WEALTH WITHIN TOP DECILE



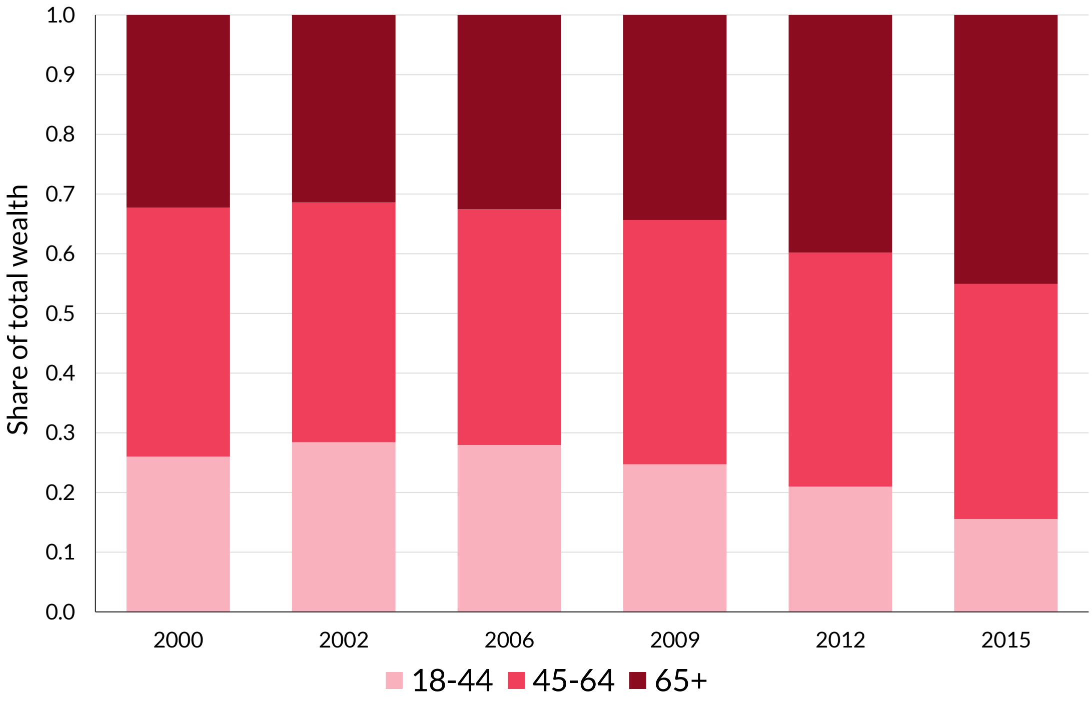
Notes: Constructed using data on wealth owned by individuals in 2014-16. Individuals are ranked by total wealth, and then grouped into deciles (4A)/percentiles within the top decile (4B). The 25th, 50th and 75th percentile of wealth-to-income is plotted for each decile/percentile.
Source: Authors' calculations based on Wealth and Assets Survey, wave 5.

Wealth is increasingly concentrated among the old

Wealth is concentrated among the old. In one sense this seems obvious: wealth is typically accumulated over life, as incomes rise, mortgages are paid off, and more money is stored away for retirement. This also suggests that some of the distributional effects of taxing wealth are not about taking from the 'lifetime wealthy' to give to the 'lifetime poor', but instead taking money from people at the part of their life where they have the most wealth and giving it to them when they have the least (Levell, Roantree, & Shaw, 2016). Since most people cannot borrow against future wealth, this could serve a useful function even for those who will later be wealthy.

It is also the case that the young today have less wealth (in real terms) than older generations had at the same age (Cribb, Hood and Joyce, 2016; Crawford, Innes and O'Dea, 2016; Crawford and Sturrock, 2019). Rising house prices relative to earnings mean both that those in older generations who are 'on the housing ladder' passively accumulate wealth, and that those in younger generations find it harder to get onto that ladder and start accumulating. In general, tax systems should be designed to offset this kind of 'luck' – happening to be born in a particular generation – much more than the returns from effort.

FIGURE 5: SHARE OF WEALTH OWNED BY DIFFERENT AGE GROUPS OVER TIME



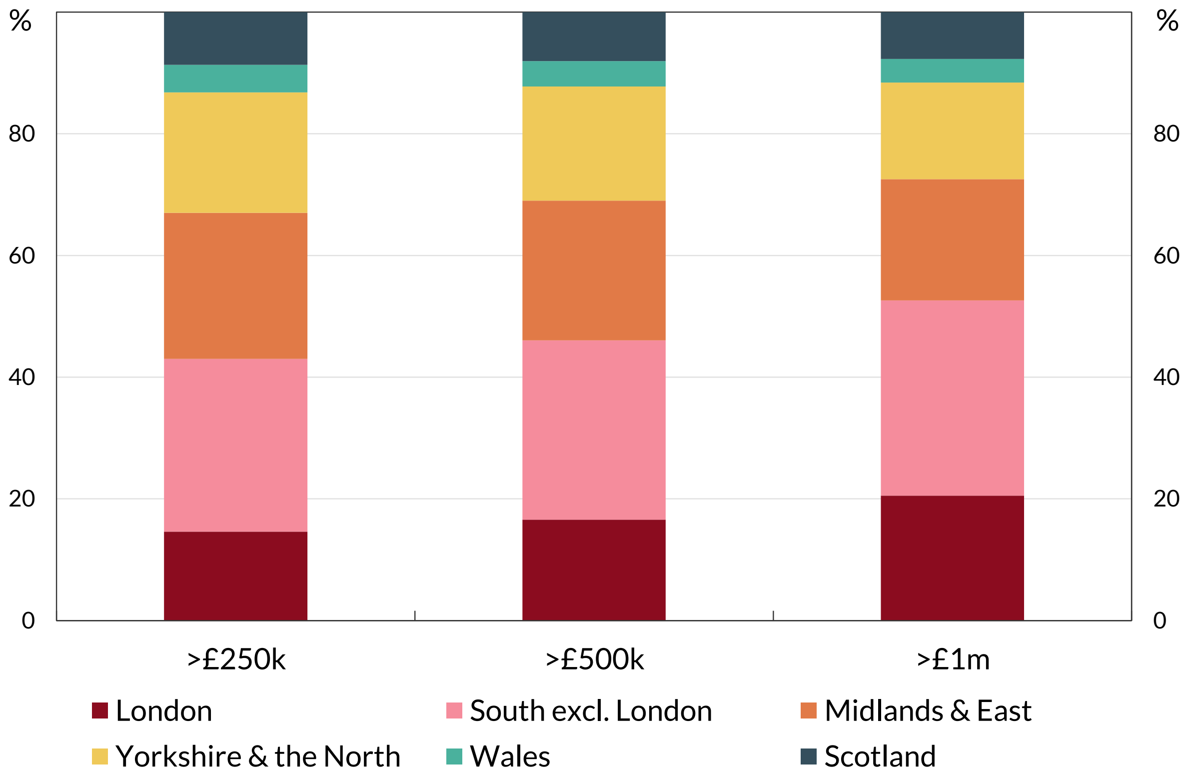
Notes: Constructed using data on total identified wealth by age category. In some years there is up to 4% of wealth allocated to individuals of unknown age: this is allocated proportionally to other wealth.
Source: Authors' calculations based on HMRC Distribution of Personal Wealth Statistics.

Top wealth is concentrated in London and the South

High wealth individuals in Britain are geographically concentrated in London and the South. Figure 6 shows the geographic breakdown of individuals with more than £250,000, £500,000 and £1 million in wealth: roughly the 75th, 88th and 97th percentiles of wealth in the UK. Four in ten (43%) of individuals with wealth above £250,000 live in London or the South; this rises to five in ten (53%) of people with wealth above £1 million. Conversely, individuals in the rest of England and Wales are less represented in the higher wealth categories. The share of individuals from Scotland is around one in twelve, across all these thresholds.

The geographic impact of a wealth tax would clearly depend on how exactly the tax is structured. For example, given the large regional differences in house prices, the decision on whether and how to include main residences in the tax base would be important. The higher the threshold of the tax, the more it would impact London relative to other regions. But the most significant determinant of geographic impact would be how the revenues were allocated and spent. For personal taxes, this has conventionally been a matter for central government, although a wealth tax could conceivably form part of a broader devolution agenda.[3]

FIGURE 6: SHARE OF INDIVIDUALS WITH WEALTH ABOVE SPECIFIC THRESHOLDS, LIVING IN DIFFERENT PARTS OF BRITAIN



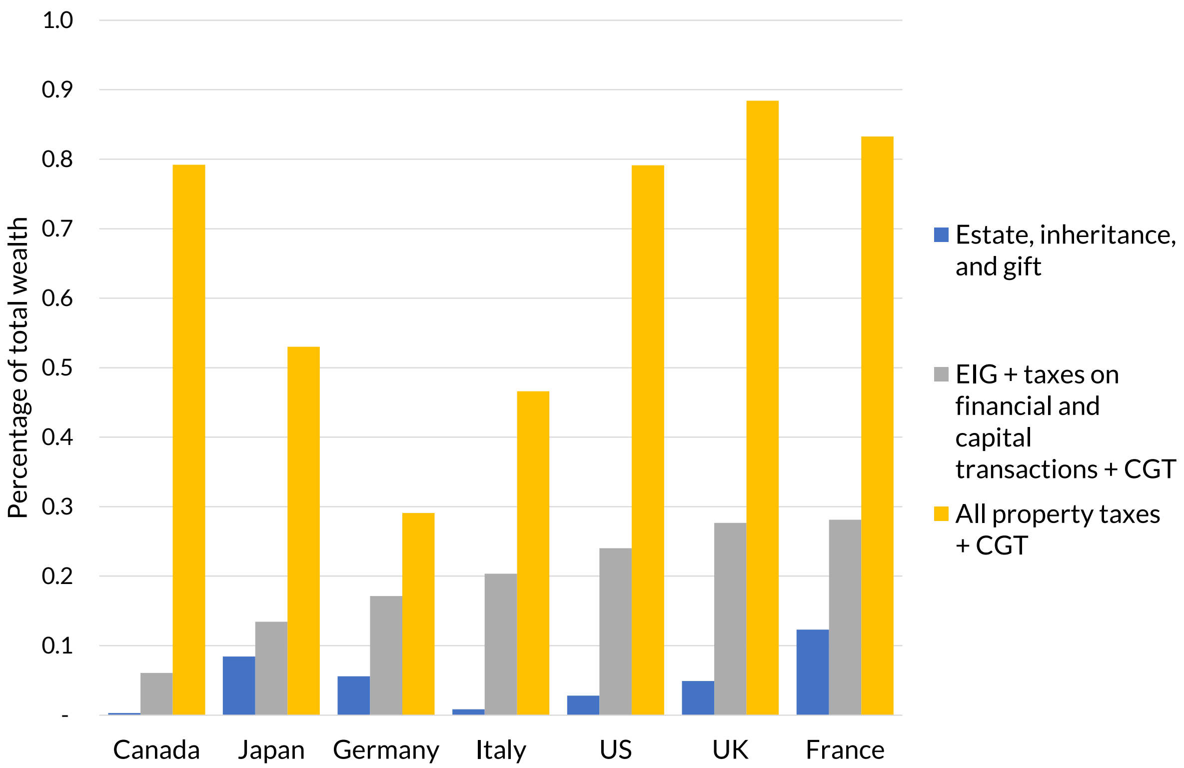
Notes: Constructed using data on wealth owned by individuals in 2014-16. Regions based on aggregations of government office region codes. 'South excl. London' includes South East and South West. 'Midlands & East' includes East Midlands, West Midlands and East of England. 'Yorkshire & North' includes North East, North West, and Yorkshire and the Humber.
Source: Authors' calculations based on Wealth and Assets Survey, wave 5.

[3] See generally Amin-Smith, Harris & Phillips (2019).

Taxes on wealth are about average, compared to other rich countries

Wealth in the UK is neither heavily taxed nor lightly taxed by international standards, though this depends on how taxes on wealth are defined. There is currently no comprehensive tax on ownership of wealth in the UK, but as with other countries there are many taxes which relate to wealth. Inheritance tax, capital gains tax, stamp duty and stamp duty land tax are most closely associated with wealth.[4] By this measure, taxes on wealth were worth 0.28% of UK wealth, putting the UK among the top of the G7, below only France (Fig. 7). If property taxes – in the UK council tax for households and business rates for companies – are also included, this rises to 0.88%, taking the UK to the top of the G7. However, these property taxes are paid by the occupiers of the property, who may not be the owner, so they do not really function like a wealth tax.[5] Using a narrower measure of wealth taxes, covering only estate, inheritance and gift taxes as in the Mirrlees Review (Boadway, Chamberlain, & Emmerson, 2010), the UK is distinctly middle of the pack: above Canada, Italy and the US, but below Germany, Japan and France.

FIGURE 7: WEALTH TAXES AS A PERCENTAGE OF TOTAL WEALTH ACROSS THE G7, 2018



Notes: Constructed using data on total tax revenues and total wealth in 2018. CGT is capital gains tax. "All property taxes" includes estate, inheritance and gift taxes (EIG), taxes on financial and capital transactions, recurrent taxes on immovable property, recurrent taxes on net wealth, non-recurrent taxes on property, and other recurrent taxes on property. Control total is total wealth from the Credit Suisse Global Wealth Databook.
Source: Authors' calculations based on OECD Revenue Statistics and Credit Suisse Global Wealth Databook.

[4] Though Advani and Summers (2020) show that, by value, most capital gains actually come from labour income that is 'repackaged' to benefit from low tax rates, rather than what we would normally consider wealth.
[5] Note that *statutory* incidence of property taxes is on the occupier. *Economic* incidence – the share paid by them versus the landlord – is the more relevant factor, though harder to measure. If tenants were able to fully 'pass through' the costs of these taxes to landlords, by being able to bargain for lower rents, then these taxes are equivalent to a form of wealth tax levied on property.

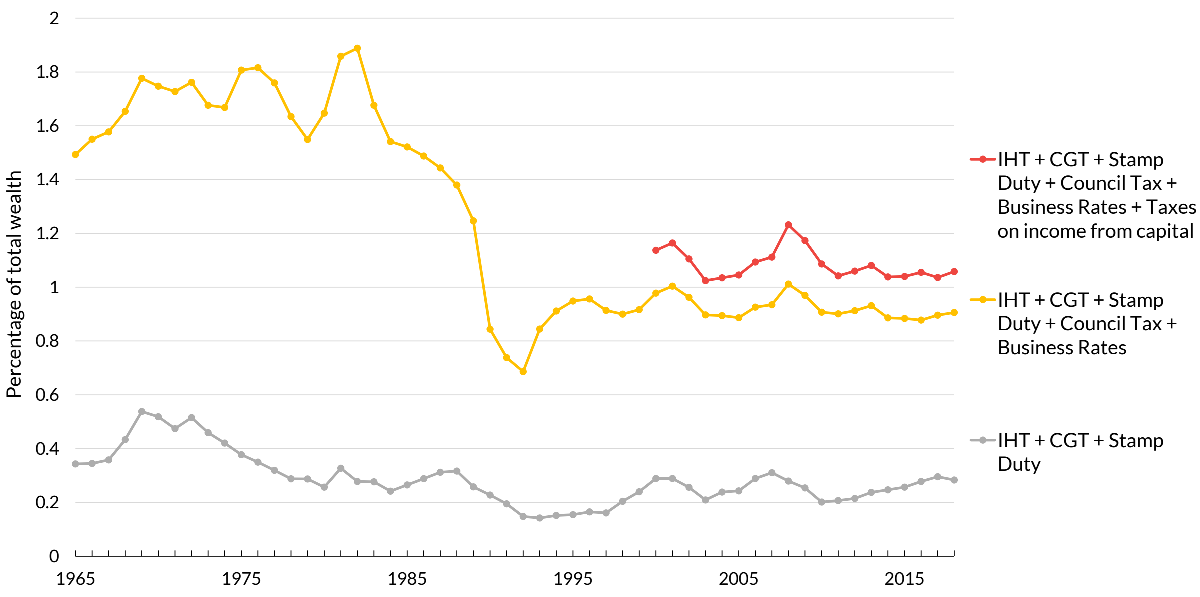
Taxes on wealth have fallen, relative to total wealth

By any definition, taxes relating to wealth have become a less important part of the overall tax picture in the UK. The biggest decline came at the end of the 1980s when 'domestic rates' were abolished, first being replaced by the community charge (better known as the 'poll tax'), and then by council tax. Since then they have remained a relatively constant share of wealth, even as wealth has become more concentrated. This is partly driven by the patchwork structure of existing taxes relating to wealth which vary by asset class, combined with differential growth across asset classes. For example, housing wealth has risen substantially, but council tax – the broadest tax on residential property – has not kept up in value.[6] Even on the narrower definition, excluding property taxes, wealth taxes as a share of total wealth has fallen from more than 0.5% in 1970 to around 0.2% since the early 1990s.

While the immediate conclusion might be that the fall in tax as a share of wealth indicates a problem with the tax system, if the return on wealth has also fallen over this period, we may well want a lower tax rate on wealth. For example, if properties were to double in value but the rents paid stayed the same, an unchanging tax rate on property value would double the tax liability even though the landlord does not receive a higher income. This highlights another important issue in the design of any new wealth tax: unless deliberately adjusted, it will not be sensitive to changes in the return on wealth.

Even if we concluded that we do want higher taxes on wealth, there are multiple ways such taxes could be structured. We next consider different approaches to taxing wealth, and how existing UK wealth taxes fit in to this picture.

FIGURE 8: 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.

[6] Pension wealth has also grown substantially, while taxes on pensions are not included here since they are a mix of a tax on the labour income initially put into the pension and the growth in capital value since then, understating the value of wealth taxes as a share of total wealth.

3. What is a wealth tax?

Approaches to taxing wealth

There are three main ways of taxing people with wealth. The UK currently does two out of three:

(1) The UK taxes transfers of wealth. Inheritance tax applies to the value of a person's wealth when they die, at which point their assets are transferred to their heirs.[7] Stamp duty land tax applies (broadly) to the sale of residential and commercial property, and stamp duty to sales of shares.

(2) The UK also taxes returns on wealth. Income tax applies to dividends from shares, rent from property, and to other forms of investment income such as interest on savings. Capital gains tax applies to the gain realised when an asset is sold (or otherwise disposed of) for more than its value when it was acquired.

(3) A third way is to tax the ownership of wealth directly. The UK has never had a tax of this kind,[8] but some countries do, either through taxes on the ownership of specific types of asset (such as residential property), or through a broad-based tax on wealth.

When we refer to a 'wealth tax' in this report, we mean the third type of tax: a broad-based tax on the ownership of wealth. Still, it is important to remember that this is not the only way of levying taxes on people who have wealth. The wealthy already pay taxes on transfers of wealth and returns on wealth (the first two types above). It is important to think carefully about the interactions between these existing taxes on wealth, and whether there is any distinctive case for introducing a new tax on the ownership of wealth as well.

Key features

A 'wealth tax' is based on the total value of assets that a person owns, minus their debts. In its most comprehensive form, it covers all forms of personal wealth, including assets such as land (including houses), physical property like cars, boats and artwork, and financial savings and investments, including any shares owned in public and private businesses. From this is deducted the value of any debts owed to others. An immediate issue is whether the tax should include people's private pensions, and the value of their main home (minus any mortgage), which we discuss briefly in Section 5.

Wealth taxes are typically levied on an annual basis: each year an assessment is made of the value of the taxpayer's net wealth, and the tax is charged as percentage of this. However, at times of national crisis, governments have been known to implement wealth taxes on a one-off or temporary basis - for example in Germany and Japan after the Second World War (Eichengreen, 1990; Hughes, 1999) - sometimes referred to as a 'capital levy'. In this context, since the tax is not recurrent, it may be charged at a higher rate. We intend to consider both of these options in our final report.

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[7] There are also some limited circumstances where inheritance tax applies to lifetime gifts.

[8] Although a new tax introduced in 2012 called the Annual Tax on Enveloped Dwellings (ATED) now applies to the ownership of residential property by companies.

International comparisons

Currently, Spain, Switzerland, and Norway all operate a wealth tax, levied on an annual basis. This is an interesting constellation because, in most other respects, these countries each have quite different approaches to public policy. Recently, wealth taxes have been considered in several countries that have not previously had one, including the US and South Africa (Saez and Zucman, 2019b; Davis Tax Committee, 2018). On the other hand, over the past two decades, six OECD countries have abolished their wealth taxes, most recently France in 2017.[9] Some countries such as France, Italy and Belgium retain tax on ownership of certain types of assets.

Could we just reform?

An immediate question raised by any suggestion of a wealth tax for the UK is: why not just reform our existing taxes on wealth? Inheritance tax, capital gains tax, stamp duty and council tax (which is not a tax on ownership in its current form but could become one) have all been subject to extensive criticism. We will not rehearse all of the criticisms here, although we agree with many of them. To be sure, there is plenty of room for improvement.

However, there has already been significant attention paid to these taxes by a range of institutions and – with the exception of council tax, which remains stubbornly unreformable – more than a little political tinkering over the past decade. Recent notable proposals for major reforms to existing taxes on wealth have been published by the IFS,[10] Institute for Public Policy Research (IPPR),[11] Resolution Foundation,[12] and Office of Tax Simplification,[13] as well as in the landmark Mirrlees Review[14], and by a range academics and practitioners, including ourselves.[15]

The way forward

We certainly do not intend this project to foreclose or forestall any of these established proposals for taxing wealth better. However, we feel that there remains a gap in the policymaking landscape. In the UK, the idea of a wealth tax has often been the subject of lofty aspiration or – in equal measure – curt derision, especially in the years since the Financial Crisis. But one must go back to the work of Sandford, Willis and Ironside (1975), writing for the IFS, for the last serious treatment of this topic; this work still repays close reading, but plainly it is now out of date.

The substantive arguments for and against the introduction of a wealth tax, in comparison with other ways of taxing wealth, are complex; we outline briefly some of the key considerations in the following sections. But the argument for embarking on this project is relatively simple: without it, the idea of a wealth tax for the UK will remain – on both sides of the debate – a nebulous vision rather than a concrete policy proposal. A detailed, rigorous and wide-ranging study of the issues is now needed for this debate to progress, one way or the other.

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[9] The others are Iceland (2014), Sweden (2007), Luxemberg (2006), Finland (2006) and Netherlands (2001). See OECD (2018) for further details.

[10] Various Green Budgets on reforms to capital gains tax and council tax. See for example Adam, Emmerson and Roantree (2013).

[11] Nanda and Parkes (2019)

[12] Corlett (2018) on inheritance tax; Corlett and Gardiner (2018) on council tax.

[13] Office for Tax Simplification (2019).

[14] Boadway, Chamberlain and Emmerson (2010); Mirrlees et al. (2011, Ch.15-16).

[15] STEP (2020); Chamberlain (2020); Summers (2019).

4. Is a wealth tax a good idea in principle?

Public opinion

Taxation requires electoral support and politicians have found it hard to deliver unpopular taxes such as the community charge ('poll tax') and the fuel duty escalator ('petrol tax'). There appears to be public support for taxing wealth, at least in some contexts. In a 2019 poll by YouGov, 69% of adults agreed that 'earnings from wealth should be taxed [at least] at the same level as earnings from income,' compared with only 12% disagreeing (YouGov, 2019). However, on its own this does not tell us that a wealth tax, specifically, would be popular, because the question was focused on how we tax returns on wealth (i.e. investment income and gains). It might be that the public would react differently to proposals for a tax on ownership of wealth.

The same YouGov poll also addressed this question more directly. It found that 52% of adults would support a net wealth tax on assets above £750,000 after excluding pensions and the value of an average home, compared with 15% against and more than a third of individuals either neutral or uncertain. A more recent poll that entirely excluded main homes and pensions found 61% in favour and 14% against (YouGov, 2020). This illustrates that it is too crude to conclude that the public are either for or against a wealth tax in the abstract; the level of support is likely to vary according to the design, including who is likely to pay, as well as other factors such as how the tax is communicated. More evidence is required on how people feel about particular forms of wealth tax.

Raising revenue

As we laid out in Section 2, the base for a wealth tax has risen substantially. This is true both in absolute terms – wealth is three times what it was in 1986 – and in relative terms – the ratio of aggregate wealth to aggregate national income is 5.7, compared with just 3.7 in 1995. An increasing tax base is not in itself a reason to introduce a new tax; however, if a wealth tax had other qualities that justified its implementation, the fact that more revenue is available would make the administrative costs more tolerable. If taxes on wealth (on a broad definition) were restored to the same share of wealth as they were in the 1960s, this would imply – absent any behavioural response – an additional £76bn in tax, indicating the magnitude of the revenues at stake.

Modelling the revenue potential of a wealth tax depends on measuring wealth effectively and identifying its components. Although all measures of wealth have risen (as shown in Figure 1), sources disagree on the level of wealth, especially at the top. Different assets may also need to be treated differently, for economic reasons, practical reasons, or for reasons of public acceptability. Around half the rise in wealth over the past decade is attributable to rising pension wealth, which is not a saleable asset, nor does it produce any direct value to an individual until retirement. Before offering any concrete revenue estimates, it will be important to understand these issues better, as well as to consider potential behavioural responses to the tax.

Reducing inequality

For some an additional goal in taxing wealth is to reduce inequality: this aim has been expressed on both on the left (Piketty, 2014) and the right (Pitt, 2020). After a dramatic decline in the first half of the 20th Century, top wealth shares have been rising slowly over the past thirty years (Alvaredo, Atkinson and Morelli, 2018). However, it is not certain that a wealth tax would reduce wealth inequality: its impact on the distribution of wealth depends both on the tax rate relative to the return on wealth, and on how much wealth inequality is created by differential savings and investment. If differences in wealth are driven by differences in incomes and ability to save, then a tax on wealth might remove much of the return on wealth but would not necessarily reduce new contributions to wealth by those who can afford to save more of their income.

Any 'redistributive' properties of a wealth tax would be a political decision, depending mainly on the rates and thresholds chosen. For example, the wealth tax that Elizabeth Warren proposed in the US had a very high threshold ($50 million) and very high rates (2% between $50 million and $1 billion, and 3% above $1 billion, with the latter later raised to 6%). If implemented, this tax would fall entirely on the top 0.1% richest by wealth. By contrast, Switzerland's current wealth taxes, which vary by canton, have very low thresholds (less than €100,000 for a single taxpayer in some cantons) and low rates (the top rate anywhere is 1%). Consequently, it is quite broad-based, and the distributional effects are not especially focused on the top. Both of these are wealth taxes, but they reflect very different political preferences. As we emphasise in the conclusion, we plan to leave the determination of thresholds and rates to politicians.

Another concern for some is rising intergenerational inequality. Wealth is largely held by those who are older, partly to compensate for reduced incomes, so the immediate implications of a wealth tax would be to reduce this. However, if the current young will eventually have the same wealth – though there is evidence they won't (Cribb, Hood and Joyce, 2016; Crawford, Innes, O'Dea, 2016) – then ultimately some of the redistribution will be moving money for the same people over their lifecycle. This may still be a good policy: people can't typically borrow against future wealth, so this might allow them access to more resources early in their lives, even if it is limited in the redistribution that it achieves. But if this is the aim, there may be more direct alternatives.

A lack of good alternatives?

The UK has a patchwork of existing taxes that relate to wealth, but they are inefficient and are not well-integrated with each other. Taxes on property (council tax and business rates) do not really function as a wealth tax since the liability is on occupiers rather than owners (notwithstanding issues of tax incidence), is based on heavily outdated property valuations in the case of council tax, and doesn't take accounts of people's differing levels of debt. Stamp duty functions as a tax on transactions – sales of housing or some types of shares – so distorts incentives to change ownership. These two taxes cover only a small set of asset classes. Capital gains tax functions as a tax on increases in wealth, but the gap between capital gains tax rates and income tax rates encourages some 'repackaging' of income into gains (Advani & Summers, 2020). Dividends – the return on wealth held as shares – also face a lower headline tax rate than income from work, though not as low as gains, leading to further tax planning (Miller, Pope, & Smith, 2019).

Some of these problems can be addressed through relatively straightforward reforms. Council tax and business rates could be more closely tied to asset values. There are regular calls to scrap stamp duty and replace it with something more efficient. Inheritance tax has a range of problems (STEP, 2020). Effective tax rates on gains and dividends could be equalised with rates on earnings. Many of these reforms could, and should, be done. However, simply adjusting the rates of existing taxes cannot fully equalise the tax treatment of income from wealth and work, because some returns on wealth fall outside the current income tax and capital gains tax bases altogether. For example, income tax does not apply to the benefit of home ownership (known as 'imputed rent'), or to profits retained within companies (until distributed to shareholders); and capital gains tax only applies when gains are realised, not to any increases in wealth as they accrue.

A wealth tax therefore potentially has the appeal of securing a broader tax base by bringing a larger range of assets into tax. However, this type of tax – on ownership of wealth – also has very different properties to a tax on (financial) returns from wealth. In particular, it taxes more heavily wealthy people who own low/zero return assets. Ownership of classic cars, fine art or other collectibles may not provide financial flows of income (and may or may not provide capital gains), but their owners would still be required to pay a wealth tax based on their value. Whether this is an advantage or disadvantage on balance depends on what the goals of the tax are: for example, a wealth tax will more naturally tax imputed rents, but it will also impose higher costs on savers who are just looking to delay purchasing to some future point in time, for example to fund retirement.

Getting money now

Many of the taxes described above – inheritance tax, stamp duty, capital gains tax – are paid only when some transfer of assets occurs: someone dies, gifts are made or assets are bought or sold. This means receipts can be volatile. In downturns there are typically fewer transactions, so stamp duty and capital gains tax receipts fall. To the extent that a government prefers a smoother flow of tax revenue, an annual tax looks advantageous. How this works in practice depends on what happens to individuals who face liquidity issues, and do not have the cash to pay: if they are allowed to defer payment of the taxation until later, this benefit may not materialise.

The issue with inheritance tax is somewhat different. Here the worry is that wealth held by younger people will potentially go untaxed for many years. With many of those at the top of the Sunday Times Rich List still in their fifties, much of this wealth is unlikely to be subject to inheritance tax for more than thirty years; even this assumes that inheritance tax will still exist in something like its current form over the long term, which is far from assured. A wealth tax has the potential to bring in revenue much sooner, although crucially this depends on how people would respond and on whether it would be ‘rolled up’ by some, to be paid later.

How might people respond?

It is always important to take account – as far as possible – of the dynamic effects of the tax system. Individuals do not simply pay taxes; they also respond to them, and there are various respects in which the wealthy might be especially responsive. Some responses could involve merely changing how particular activities are accounted for on paper: for example, through complex changes in ownership structure or the legal location of assets. But people may also respond by actually doing things differently, such as saving and investing more or less, investing in different assets, or changing where they live.

One prominent concern is about migration responses. There is anecdotal evidence of individuals leaving the UK, or planning to leave, in response to higher tax rates. Such responses would affect revenues, because although those who stay may pay more tax, those who leave will typically stop paying any (UK) tax. It is therefore important to understand the scale of these and other responses. To move beyond anecdotes, academic economists use tax data covering the whole population, leveraging past changes in tax policy to estimate the causal effects of the tax system on people’s behaviours.

The economic literature identifies that overall responses (‘elasticities’) to tax reforms can be large, though there is disagreement about their size. Partly, different elasticities reflect differing economic and social contexts, as well as empirical difficulties in providing causal estimates. But another source of difference results from the differing designs of the taxes considered, and the associated scope for avoidance. Understanding these design issues is therefore crucial to predicting the likely behavioural responses that might occur. We turn now to these and other legal and administrative issues that would need to be resolved in the design of a wealth tax.

5. Would a wealth tax work in practice?

Defining the tax base

The first issue in designing a wealth tax is to define the tax base. In other words: what should count as 'wealth'?

The starting point is usually assumed to be the total value of all marketable assets that a person owns, minus any debts. On this basis, housing wealth would be included in the tax base, but any outstanding mortgage debt would be deductible.[16] The present value of a person's future earning capacity – sometimes called their 'human capital' – would almost certainly be ignored. A more difficult issue is whether or not to include in the tax base the value of any legal rights to future income streams, for example, from private (or even state) pensions. As a working definition, the base for a wealth tax might track broadly the same types of assets and debts as are currently included for inheritance tax purposes.

The term 'wealth tax' is usually shorthand for a tax on personal wealth owned by individuals. But this raises the tricky issue of how to deal with underlying assets that are held by companies, or via other legal structures such as trusts and foundations. In the simplest possible terms, when someone (the 'settlor') places an asset into trust, this means that the person who has the legal power to deal with that asset (the 'trustee') is no longer the same as the person who is entitled to the benefits from the asset (the 'beneficiary'). This presents several challenges for the tax system, about who should be liable to pay the tax (the settlor, trustee, beneficiary, or some combination) and how they should be assessed, given the range of ways in which a trust may be structured.

The UK already has a complex and inconsistent inheritance tax regime for trusts (Chamberlain and Whitehouse, 2014). Many similar issues would arise for a wealth tax. For example: should trusts be treated as transparent and taxed on the settlor even if the settlor receives no benefits? Should beneficiaries be taxed on the value of the trust assets even if the beneficiary only has a discretionary or revocable interest? That value is likely to be very small and will not accurately reflect the true value of the underlying assets. Alternatively, should the trust be taxed as a person in its own right in which case how does one stop asset-splitting between multiple trusts set up by the same settlor? Many trusts with a UK connection are already subject to an inheritance tax charge every ten years, so some lessons on avoidance and definition can be gleaned here.

Corporate ownership structures can also raise design challenges. Since 2012, the UK already has a tax on assets owned by companies: the obscurely named 'annual tax on enveloped dwellings' (ATED) was introduced to tax some residential properties owned via a company, mainly to counter avoidance of stamp duty land tax. If the tax base for a personal wealth tax included the value of company shares (which must ultimately be owned by individuals or trusts) then it would probably be unnecessary – indeed duplicative – to tax the assets of the company at the corporate level as well. But if some shares were not included (or were given special preference), then avoidance using corporate holding structures would be more problematic.[17]

[16] Subject to certain conditions to prevent avoidance.

[17] Particular problems might arise on the valuation of some types of close family investment companies or other businesses where rights between family members can be more easily manipulated to minimise values.

Who to tax?

Another issue is who should be covered by a wealth tax. Are only adults chargeable, or minors as well? Should the tax be levied on the wealth per individual, or should couples be assessed together, and if so, only married couples or also cohabitees? Yet another option could be to define the tax unit in terms of households. From a purely administrative perspective, the definition of the tax unit matters less if the tax starts at a relatively low threshold and the rates are not very progressive, but at higher thresholds then assessing individuals may encourage avoidance through asset-splitting. On the other hand, joint taxation could undermine the financial independence of couples. These questions accordingly raise tricky issues of intra-household wealth and power dynamics, with important gender implications.

There is also the international dimension. For income tax and capital gains tax, the UK currently relies on residence (where an individual spends their time) and domicile (the place they consider to be their permanent home). For inheritance tax the issue is primarily one of domicile and 'situs'.[18] Domicile is complex and unsatisfactory for several reasons; a wealth tax would certainly make these problems more acute. Various alternatives could be envisaged. The US relies on citizenship, although this has burdensome administrative consequences for those living abroad even when there is minimal tax to pay. Another option may be to tax by reference to the length of UK residence, so that someone would only pay the wealth tax after having lived in the UK for a set number of years, but may then also remain liable for a certain period after departure.

A wealth tax might additionally apply to any assets located in the UK regardless of the residence or other characteristics of their owner. There is already precedent for this: inheritance tax applies to all UK-sited assets even where the deceased was not domiciled in the UK; and capital gains tax now applies to disposals of UK land and UK property rich vehicles even where the owner is non-resident and the land is owned through a foreign company.[19] There are also measures to prevent capital gains tax and inheritance tax avoidance by non-residents holding UK land via a foreign company (known as 'enveloping'). But this approach may be seen as less desirable or feasible in relation to other types of assets owned by non-residents, especially UK listed shares and intangible assets such as intellectual property.

Valuation and liquidity

A major challenge for implementing a wealth tax is how to value assets and debts. Internationally, many wealth taxes are not in practice based on open market value, but instead operate with fixed discounts or by reference to past transactions, or using a banded approach, which can lead to unwelcome distortions.[20] Some assets, such as fine art or shares in family businesses, are especially difficult. Market value can also be affected by the legal form in which assets are held. The need to minimise administration and compliance costs, and to reduce uncertainty and delay, is critical. For an annual wealth tax, these problems are particularly acute, although it might be possible to charge the tax annually but value less often; again, there are some UK precedents for this.[21] A formulaic approach would have the merit of fewer valuation

[18] 'Situs' means where the assets are situated, which is reasonably straightforward to determine for land and physical assets, but much more contentious for intangibles such as intellectual property.
[19] To residential property disposed of after April 2015, and also non-residential property and property rich vehicles disposed of after April 2019.
[20] The German wealth tax was abandoned as unconstitutional partly because of uncertainty over principles of valuation (Federal Constitutional Court Decision 22 June 1995).
[21] This is broadly the approach of the Annual Tax on Enveloped Dwellings (ATED) and the Pre-Owned Assets Tax.

disputes with HMRC, but has the drawback that it could distort behaviours if people seek to target the formula.

A wealth tax also raises liquidity concerns. How can the poor 'granny in a big house' afford to pay? What about the start-up business with a high valuation but little current profit? What about the farmer with high value land that is low yield? Should special reliefs be given to stately homes that are open to the public and how would these relate to existing reliefs for other taxes? These issues all require solutions, but if reliefs for illiquid assets are made too generous, they may be seen as unfair and could be distortive. If the tax has high thresholds and low rates then liquidity problems may be reduced, but so is the revenue potential. Over time, asset values may adjust, but this creates transitional problems. One solution may be for the tax to be rolled up and paid later, on a disposal or death. However, the amount of deferred tax (with interest) could become large quite quickly, with implications for taxpayer behaviours and revenue.

Interaction with other taxes

The UK already has a highly complex set of rules for taxing wealth: inheritance tax and capital gains tax are labyrinthine even by the usual standards of tax legislation. A high bar for effectiveness is surely required to justify the extra layer of complexity that would arise from adding another new tax on top. On the other hand, the current system has significant holes and – as mentioned above – some of these are not easily filled by reforms to existing taxes. There may be a case for using a wealth tax as a backstop, by allowing it to be fully deductible against other personal taxes. In this form, the tax would raise less revenue because most people would not pay it, but it may address concerns about a minority of individuals who appear to pay relatively low taxes overall, at least as a share of their wealth.

The interaction between a wealth tax and other taxes on wealth raises numerous issues both of principle and practice. For example, if a wealth tax were applied on top of income tax and capital gains tax, it could result in effective tax rates exceeding 100% of investment returns, especially on low-yielding assets.[22] There is a question of principle as to whether deductions or credits for a wealth tax should be given against these taxes, and perhaps also inheritance tax. There could also be knotty practical problems arising from subtle differences in definition of the tax base or approaches to valuation. Making good tax policy requires oversight of the entire system, not just attention to one tax in isolation.

Avoidance and enforcement

The design of a wealth tax obviously affects which enforcement mechanisms are appropriate, and in turn may be constrained by which mechanisms are available. There have been huge advances in third party reporting and international cooperation since a wealth tax was last seriously considered in the UK – indeed even within the past five years. A wealth tax has the potential to assist enforcement of other taxes, by providing HMRC with more detailed information about likely sources of income and capital gains; the data collected also has pay-offs for our understanding of how wealth is distributed in society. The flipside, of course, is that detailed disclosure can be administratively burdensome on taxpayers (as well as HMRC) and may be opposed by some on grounds of privacy. Questions therefore arise over how the necessary data can be efficiently and securely collected, and whether HMRC would need an entirely new system for this purpose.

Perhaps even more important than illegal evasion – at least for the revenue potential of a wealth tax – is the scope for legal tax planning and avoidance. Many strategies are easy to predict: a

[22] Although to an extent this issue is inevitable – regardless of other credits – for assets that yield zero (financial) return, such as privately displayed fine art, or minimal returns, such as savings accounts.

wealth tax creates obvious incentives to fragment wealth between family members, business associates, or using trusts, to obtain minority discounts and maximise allowances; the strategic use of debt deductions is another likely avenue for avoidance.[23] To some extent these issues can be dealt with by wide-ranging 'connected party' rules, but these increase complexity and can result in unfairness. Similarly, a wealth tax that uses banded valuations is likely to encourage avoidance round the thresholds but may be simpler to operate. As ever, some trade-offs are inevitable. Transitional issues would need to be addressed carefully, particularly in relation to opportunities for forestalling, although recent experience shows that legislative solutions can be crafted.[24]

[23] For example, under a tax on *net* wealth, someone who owns a house with a mortgage should pay less than someone who owns outright. But if debt is deductible then an individual may borrow from a trust on 'soft' terms to obtain a deduction against the value of their house. Similar issues were considered and resolved when the inheritance tax 'enveloped property' provisions were introduced in 2017, though at the cost of some complexity.

[24] For example, the recycling rules in Finance Act 2018, the introduction of non-resident capital gains tax in Finance Act 2019, and measures on entrepreneurs' relief in Finance Bill 2020.

6. Should the UK have a wealth tax?

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 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.

A wealth tax is one such big idea. But as we have outlined in this report, before it could be supported, let alone implemented, there are many questions that need answering. 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?

The aim of this project is to answer these questions, and ultimately to decide whether or not a wealth tax should be implemented in the UK, and how. At this stage we remain open-minded: both on whether a wealth tax would be desirable in principle, and whether it would be feasible in practice. We are troubled that many people feel sure they already know the answer to these questions, despite the lack of a robust evidence base, in the UK or elsewhere. Before we reach our conclusions, we recognise that a detailed, rigorous and wide-ranging study is required.

These issues have proved difficult to tackle so far, not only because they are individually complex, but also because they span multiple fields: economics, law, public attitudes, and public administration. No single profession can claim a monopoly of wisdom. The key contribution of this project is therefore to bring together academics, research institutions, practitioners, and former policymakers from a range of disciplines, to form a network of world-leading experts.

The first milestone will be a series of Evidence Papers, specially commissioned to address the key questions we have raised in this report (for a full list of topics and contributors see Annex A). These papers will be available, both to us and to the public, by October 2020. We will use them to inform a final report – that we will write independently – to be published in December 2020. Our immediate focus in the report will be to make policy recommendations for the UK, but we hope that our conclusions, and the evidence base that precedes them, will contribute to parallel debates around the world.

We should emphasise from the outset that our final report will not specify particular rates or thresholds, revenue targets, or distributional impacts that a wealth tax should achieve. We will model various options, but ultimately these choices must be made by politicians. Rather, we will do the hard thinking that is needed beforehand, about the structure of the tax, its advantages and drawbacks, and detailed aspects of its design and administration, to put the debate on a surer footing. Without this, the idea of a wealth tax will remain a topic of abstract hope or fear, neither grounded in sufficient understanding of what the tax would actually entail.

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Annex: core evidence papers

The following 'core' evidence papers will form the project's main evidence base, supported by additional background papers. The papers are listed below by topic, together with the author(s) so far identified and their primary affiliation or profession:

1. Distribution of wealth in the UK
   Arun Advani, University of Warwick, and George Bangham, Mike Brewer, & Jack Leslie, Resolution Foundation

2. Public attitudes to a wealth tax
   Karen Rowlingson, University of Birmingham, and Amrita Sood & Trinh Tu, Ipsos Mori

3. Economics of a wealth tax
   Stuart Adam & Helen Miller, Institute for Fiscal Studies

4. Ways of taxing wealth: interactions and alternatives
   Andy Summers, LSE

5. Behavioural responses by the wealthy: international evidence
   Arun Advani, University of Warwick, and Hannah Thompson, LSE

6. The politics and design of wealth taxes: international experience
   Sarah Perret, OECD

7. Defining the tax base
   Emma Chamberlain, Barrister

8. Valuing assets and debts
   Andy Lymer, University of Birmingham

9. Liquidity issues: solutions for the asset-rich cash-poor
   Glen Loutzenhiser, University of Oxford, and Liz Mann, LSE

10. Administration, collection and enforcement
    John Barnett, Solicitor and Edward Troup, formerly HMRC

11. Delivery: the path to implementation
    Tom Pope & Gemma Tetlow, Institute for Government

12. Revenue and distributional modelling (to be published alongside the final report)
    Arun Advani, University of Warwick, and Helen Hughson & Andy Summers, LSE