Final Report

Wealth Tax Commission

A wealth tax for the UK

Authors
Arun Advani
Emma Chamberlain
Andy Summers

UKRI Economic and Social Research Council

LSE International Inequalities Institute

CAGE

LSE THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

WARWICK THE UNIVERSITY OF WARWICK

Foreword

"No, I do not believe that now is the time, or ever would be the time, for a wealth tax."

So said the Chancellor, Rishi Sunak, in July 2020. But as John Maynard Keynes put it: 'when the facts change, I change my mind'. Since July, two facts have changed.

First, the predicted deficit as a result of COVID-19 has doubled since then, and is now expected to reach 19% of GDP, the highest peacetime figure ever. It is twice the peak of the financial crash. Second, before now, no one in the UK had seriously considered a wealth tax for nearly 50 years, and the evidence base was thin. Preconceptions had hardened based on experiences abroad, but the reality is that no one really knew if or how a wealth tax could work in the UK.

This report will not change everyone's mind, but I welcome it as an important contribution to the debate. It has been led by a team with the essential mix of skills in economics, tax law and administration, who approached the subject with an open mind. They conclude that an annual wealth tax is a non-starter in the UK and we should fix our existing taxes on wealth instead. However, a one-off wealth tax is a very different proposition. They think it would work and could raise one-quarter of a trillion pounds over five years. This is a striking conclusion and it comes at a crucial juncture.

The recent spending review highlighted the extent to which our public finances and our tax system have been challenged by the COVID crisis. It is broadly accepted that if the prime minister is to stand by his promise not to return to austerity then taxes will eventually have to rise. This will mean breaking another manifesto commitment by raising income taxes, national insurance contributions, or VAT. Or it means thinking seriously about new taxes.

Governments have made radical changes to taxes when there has been public understanding that change is needed. A one-off tax on banks was introduced by the Conservatives under Prime Minister Thatcher. A one-off tax on privatised utilities was implemented by Labour under Prime Minister Blair. In both cases they were motivated by the specific circumstances of the time, so neither had wider economic repercussions. A one-off wealth tax could be seen in a similar light now, sharing the burden of paying for the crisis across those with the broadest shoulders.

In the aftermath of a crisis, difficult choices need to be made and there is probably more public acceptance of the need for change than in normal times. We have seen with climate change that ducking tough choices today leads to even tougher choices tomorrow. 'To govern is to choose', as Nigel Lawson, a chancellor who did make radical changes to our tax system, put it.

At a time when there appear to be no good options left, it is worth keeping an open mind about the choices that lie ahead.

Lord Gus O'Donnell

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

Executive Summary

It has been nearly half a century since a wealth tax was last seriously considered in the UK. Fifty years on, much has changed in the economic circumstances of the UK, the technological capacity to administer a wealth tax, and the requirements on disclosure of offshore wealth. Old plans therefore cannot simply be picked 'off the shelf'. And yet, at a time when we face the largest public finance crisis since the Second World War, there is clearly a renewed urgency to 'think big' on tax policy. We felt that the lack of a robust evidence base on wealth taxes risked leaving the UK unprepared for this critical debate.

In April 2020, we commissioned a network of world-leading experts on tax policy to provide this evidence. Our contributors included academics, policymakers and tax practitioners, because it is our view that good tax design demands interdisciplinary expertise and a connection with the 'real world'. We drew heavily on international experience, commissioning detailed studies of the operation of wealth taxes in seven different countries, written by local experts. Published in October 2020, the resulting series represents the largest repository of evidence on wealth taxes globally to date. It comprises half a million words across more than thirty papers, covering all aspects of wealth tax design – both principle and practice.

In this report we draw on our contributors' findings to inform our own conclusions and recommendations to government. We stress that these conclusions are ours alone, and do not necessarily represent the views of our contributors. Nevertheless, we thank them for their input, without which this report would not have been possible. We are also grateful for the extensive engagement of civil society organisations, representatives of business, and staff at HM Revenue and Customs (HMRC) and HM Treasury, throughout our deliberative process. Likewise, we stress that these engagements do not signify any endorsement of our view.

We present below our conclusions on the principles, design and delivery of a wealth tax for the UK. We consider both one-off and annual wealth taxes, reaching different conclusions on the merits and practicalities of each. We also make recommendations on specific design choices where there are clear reasons to take a particular position, leaving open some remaining issues where there are trade-offs that require the exercise of political judgement.

In particular, as we have made clear from the inception of this Commission, it is not our business to make recommendations on the rates or thresholds that should apply under a wealth tax. Nor do we endorse any specific revenue target. These are archetypal matters of political judgement and democratic deliberation, since they form the main levers that determine the distributive effects of the tax i.e. who pays and how much. Our own views on such issues carry no special weight, and indeed since we do not agree amongst ourselves on these questions, it would not in any case be possible for us to venture a consensus opinion.

That said, we do provide a separate report with detailed modelling containing our estimates of how much a wealth tax *could* raise, and from whom, at different rates and thresholds. The options presented there, and referenced in this report, should be read as possibilities, rather than our own prescriptions. We also highlight certain key design issues and trade-offs that are affected by the rates and thresholds chosen.

What is a wealth tax?

A 'wealth tax' is a **broad-based tax on the ownership of net wealth**. By 'broad-based', we mean a tax on most (or all) types of asset, not only a specific type such as property. By 'net wealth', we mean a person's assets minus their debts.

This is distinct from other taxes that relate to wealth, of which the UK has many. For example, inheritance tax (IHT) is a tax on *transfers of wealth* between individuals. Capital gains tax (CGT) is a tax on *increases in the value* of particular items of wealth. Council tax is a tax on the value of housing, albeit based on a 1991 valuation, and independent of whether the property is rented, owned with a large mortgage or owned outright.

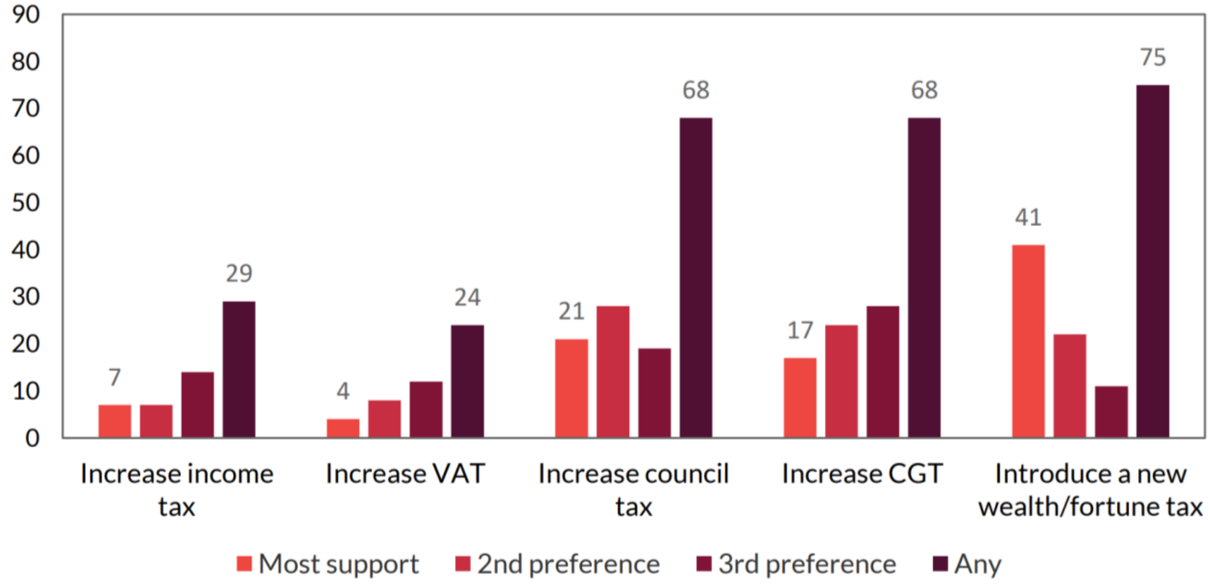
We consider below two distinct types of wealth tax: a one-off wealth tax and an annual wealth tax. These have different economic justifications, and face different practical and political constraints. But we first set out the potential rationale for considering a wealth tax at all.

Why have a wealth tax?

Public attitudes show a clear desire for wealth to be taxed more, relative to labour. Work on public attitudes carried out as part of the research of this Commission showed a clear preference for any tax increases to fall on wealth rather than on income.[1] A wealth tax – rather than some other tax on wealth – was the most popular suggestion.

This in itself is not a reason for a wealth tax – tax is a technical subject, and we believe that good tax design requires the input of relevant experts. However, we think it is essential to understand the objectives people have in mind when they support a particular tax. These objectives can then be used to benchmark a wealth tax against alternatives.

Figure ES.1: Preferences for particular taxes if an increase were to take place



Source: Rowlingson, Sood and Tu, 2020.

Individuals were therefore asked for what they considered to be the best case for and against a wealth tax. From their responses we derive four key objectives that were desired in a wealth tax:

(1) The tax should raise substantial revenue

(2) It should do so efficiently

(3) It should also be fair

(4) The tax should be difficult to avoid

We also added a fifth test:

(5) A wealth tax should achieve these objectives better than the alternatives

[1] VAT is a tax on both income and wealth, since it taxes spending out of either in the same way.

We consider how a one-off wealth tax and annual wealth tax measure up against these principles, and what design features each must have.

One off wealth tax

The defining feature of a one-off wealth tax is that it would be a one-off exceptional response to a particular crisis. Individuals would only be taxed once based on the wealth they owned valued at a particular date. They would still be allowed to pay the tax in instalments over a number of subsequent years, to reduce the cost in any single year, but the amount of tax would be based on their wealth on the initial assessment date.

Achieving objectives

A one-off wealth tax can raise substantial revenue. After accounting for non-compliance and administration costs, **a one-off wealth tax payable on all individual wealth above £500,000 and charged at 1% a year for five years could raise £260 billion; at a threshold of £2 million it would raise £80 billion.** This would be paid by individuals whose total wealth *after mortgages and other debts*, and *after splitting the value of shared assets such as a jointly-owned family home*, exceeded the tax threshold, and only on the value of wealth above that threshold. To be clear, a wealth tax levied at 1% above £500,000 would require a couple to have net wealth of more than £1 million before any wealth tax would be payable.

Table ES.1: Revenue estimates for a one-off tax – flat and progressive taxes

Threshold per individual (£)	Annualised rate	Revenue (£bn)	Taxpayers ('000)	Administrative cost (£bn): to taxpayer	Administrative cost (£bn): to govt
Flat tax at 5%					
10,000,000	1%	43	22	1	0.6
5,000,000	1%	53	83	1	0.6
2,000,000	1%	81	626	2	0.7
1,000,000	1%	147	3,004	4	1
500,000	1%	262	8,246	7	2
250,000	1%	390	15,537	10	3
Flat tax raising £250bn					
1,000,000	1.71%	250	3,004	4	1
500,000	0.95%	250	8,246	7	2
250,000	0.64%	250	15,537	10	3
Progressive taxes raising £250bn					
1,000,000	0.8%	250	3,004	4	1
2,000,000	1.6%				
5,000,000	2.4%				
10,000,000	3.0%				
500,000	0.6%	250	8,246	7	2
1,000,000	1.0%				
2,000,000	1.2%				
5,000,000	1.4%				
10,000,000	1.6%				

Notes: These revenue estimates account for 10% of tax revenue being lost to non-compliance.
Source: Advani, Hughson and Tarrant, 2020.

Alternative tax rises which could also raise £250 billion over five years include:

- Basic rate of income tax to rise by 9p (20p to 29p)
- All income tax rates to rise by more than 6p
- All VAT rates to rise by 6p (taking main rate from 20p to 26p)
- Corporation tax to rise by 5p *and* VAT to rise by 4p.

A one-off wealth tax would be economically efficient. Since it is based on wealth at a (past) point in time, a one-off wealth tax does not distort behaviour. In contrast, income taxes on employment and self-employment reduce incentives to work, capital taxes reduce investment, corporation taxes encourage companies to reduce (UK taxable) profits.

The efficiency case relies on the wealth tax being credibly one-off. If it were anticipated the tax would be levied again, this would not be the case. This explains why historically one-off taxes have largely been used after major crises, providing a compelling rationale for their unique nature. The UK has also had past one-off taxes, including the 1981 windfall tax on banks (under Margaret Thatcher) and the 1997 windfall tax on privatised utilities (under Tony Blair). It also relies on people not being able to respond before the tax is introduced.

By construction, **a one-off wealth tax will raise more tax from those who have more wealth**. How much more depends on the tax design: different tax rates and thresholds will raise different amounts of money and from different people. In a report published alongside this one, we detail the distributional effects of alternative options.[2] However, it is important to note that a one-off wealth tax is not (necessarily) about redistribution *per se*. Rather, it is a relatively progressive way of raising revenue, compared with alternative approaches that might be considered. The extent of progressivity is a matter of choice.

Well-designed one-off taxes are very difficult to avoid, since they are based on behaviour that has already occurred and past values. Assuming that a one-off wealth tax was assessed by reference to wealth on the same day as (or shortly before) the policy was announced, there would be very little chance to respond, although we still account for a tax gap from legal avoidance and non-compliance in the revenue estimates above. However, the cost of this is that a one-off wealth tax is necessarily insensitive to subsequent changes in wealth, since the tax due is fixed at the outset.

Design

A one-off wealth tax is feasible to design for the UK. In the body of this report we set out the detailed considerations around particular design choices. Here we simply set out the conclusions we reach in terms of design, and a brief explanation of key points.

The **tax should be levied on an individual rather than on a household basis**, although there could be provision to allow couples to choose to be jointly assessed.[3] An individual basis of assessment is consistent with (most of) the rest of the personal tax system, making administration easier in terms of integration with existing tax filing mechanisms.

A one-off wealth tax should include all property of an individual in the tax base. This flows from a horizontal equity argument: individuals of similar means should not be taxed differently because (for example) one owns a house while the other holds cash while they wait to buy a house, or one has their savings in a pension while the other has reinvested their savings in their business.

---

[2] Advani, A., Hughson, H. and Tarrant, H. (2020), 'Revenue and Distributional Modelling for a Wealth Tax' *Evidence Paper 13*, Wealth Tax Commission

[3] In Appendix A we discuss in more detail the treatment of trusts, and of tax residence.

Assets should be valued based on their *open market value* i.e. 'the price which the property might reasonably be expected to fetch if sold in the open market'. For most asset classes these are readily available, and could be straightforwardly reported: savings, pensions, and listed shares. The value of housing and land would in the first instance be calculated by the Valuation Office Agency (VOA). This minimises the cost for taxpayers of getting valuations. However, householders would have the right to challenge the valuation if they believed it to be incorrect. Shares in private companies would require professional valuation. Business valuations would be completed at company level, and the value of specific shareholdings then reported to individual shareholders.

Payments could be deferred by those who are liquidity constrained ('asset-rich-cash-poor'). A concern people have about a wealth tax is that someone might be required to sell a large, illiquid asset – typically the family home – to pay what might be only a relatively small amount of tax. The scale of this problem varies with the rates and thresholds set. Assuming that individuals have no possibility to borrow to pay the tax, at a threshold of £500,000 (£1 million per couple) with an annual rate of 1% for five years, 570,000 people are liquidity constrained; that falls to 65,000 at a threshold of £2 million. Nevertheless, whatever the scale, it is crucial that measures are available to reduce unnecessary hardship.

We recommend three measures to reduce the cost of liquidity constraints. First, wealth tax due in respect of pension wealth should be payable out of the pension lump sum on retirement, for those not yet at state pension age. This wealth cannot be accessed in working life, so deferral and automatic withholding should be allowed. Second, the standard payment period for a one-off tax can be extended under carefully pre-defined conditions. Third, where neither of these remedies is sufficient, a statutory time-to-pay scheme (similar to others existing in the UK tax system) should be available.

We firmly reject any adjustment of the tax owed by reference to income – if a wealth tax is desirable, its distinctive feature is raising revenue from those who hold wealth that is large in relation to their income.

Delivery

Delivering a one-off wealth tax from inception through to full operation would be a major undertaking. Although one can point to entirely new taxes introduced within the recent past, there are none on this scale. Nevertheless, we have seen in relation to both Brexit and COVID-19 that HMRC and HM Treasury are well-capable of acting expeditiously, when given proper resourcing and government backing. Looking further back, after plans for national insurance were announced by Churchill in 1943, the system was up and running by 1947. Meanwhile, PAYE was introduced – using only paper records – whilst the Second World War was still ongoing. Times of crisis are also opportunities to think big.

We do not consider that this approach would be 'retrospective' or contrary to individuals' legitimate expectations. Public policy must strike a balance between forewarning and efficiency. There is plenty of evidence that pre-announcing tax reforms can be severely detrimental to their effectiveness.

Annual wealth tax

Unlike a one-off wealth tax, an annual wealth tax would require regular reassessments of wealth, with tax due changing as wealth changed. If it were introduced, it would also be a permanent addition to the UK tax system (as much as any tax is permanent), rather than a temporary measure.

Based on its ability to achieve the objectives below, **we recommend that instead of an annual wealth tax, the government should reform existing taxes on wealth.** Many existing taxes on wealth have major structural flaws, and recommendations for improvement have come from many sources.

An annual wealth tax would only be justified in addition to these reforms if the aim was specifically to reduce inequality by redistributing wealth. We do not take any position on whether the government should use tax policy actively to reduce wealth inequality. *If* this were the government's aim, there are limits to the extent of redistribution that can be achieved using existing taxes on wealth, even after reform. An annual wealth tax could be justified on this conditional basis, but proponents should be clear that this is their aim and that it may be difficult to achieve.

Achieving objectives

Like a one-off wealth tax, an annual wealth tax should include all types of wealth. However, three features would reduce the revenue that could be raised. First, administrative costs would be higher since asset valuations are needed regularly. Depending on the rate selected, this sets a lower bound on the threshold where a wealth tax can start. Second, liquidity concerns may limit the tax rate that could be set. Payment deferral is not easy, since each year new tax would be due. Third, unlike a one-off tax, individuals would have more scope to change their behaviour to reduce their tax liability. Evidence from countries where annual wealth taxes exist suggests around 7–17% of the initial tax base would be lost to avoidance at a tax rate of 1%.

Taking into account these limitations, Table ES.2 shows the tax rates needed to raise £10 billion a year in wealth tax. This revenue target is merely set as an example, and is roughly equivalent to adding 2p to the basic rate of income tax or almost 2p to VAT, and is twice what is received from IHT. **A wealth tax starting above £2 million at a rate of 0.6% can raise £10 billion after ongoing administrative costs.** Before accounting for liquidity solutions, 44,000 people (7% of those paying) would be liquidity constrained.

Table ES.2: Revenue estimates for an annual tax – flat and progressive taxes

Threshold per individual (£)	Rate	Revenue (£bn)		Taxpayers ('000)	Administrative cost (£bn):		
		Low avoidance	High avoidance		to taxpayer	one-off to govt	per year to govt
Flat taxes							
10,000,000	1.12%	9.9	8.7	22	0.7	0.6	0.003
5,000,000	0.91%	9.9	9.0	83	1	0.6	0.01
2,000,000	0.57%	9.9	9.4	626	2	0.6	0.1
1,000,000	0.31%	10.0	9.7	3,004	4	0.6	0.5
500,000	0.18%	10.2	10.0	8,246	7	0.6	1.2
250,000	0.12%	9.9	9.8	15,537	10	0.6	2
Progressive taxes							
1,000,000 2,000,000 5,000,000 10,000,000	0.10% 0.25% 0.50% 0.65%	9.9	9.4	3,004	4	0.6	0.1

Notes: The rates target £10bn in revenue, taking a low level of avoidance into account, before the deduction of administration costs.
Source: Advani, Hughson and Tarrant, 2020.

The theoretical case for or against an annual wealth tax on efficiency grounds is not straightforward. An annual wealth tax, like all other regular taxes, does affect behaviour. Like income tax and VAT, it reduces the value of work. Whether it is any worse than those taxes, in terms of economic efficiency, is not clear. The key issue is what it does to savings decisions and what the impacts of this are. Theoretical arguments can be made both that it worsens and that it improves efficiency, under different assumptions, but the empirical evidence is weak.

If the only goal of an annual wealth tax is to raise (relatively) more tax revenue from people with wealth, this does not necessarily require a new wealth tax. Existing wealth taxes could simply be adjusted, and this would bring in more revenue from people with wealth. We describe below some proposals that others have made.

If the goals include actively reducing wealth concentration (rather than merely raise necessary revenue more heavily from those with wealth), a wealth tax with a high rate could achieve this, but only if avoidance behaviours could be minimised.

Design

Most of the design choices would be as with a one-off wealth tax. We note here two key differences.

It is even more important for an annual wealth tax to include all assets in the tax base. Unlike a one-off tax, exclusion of assets has severe consequences for efficiency and the revenue raised. Evidence from wealth taxes in other countries shows that individuals are very likely to move assets into lower taxed or untaxed asset classes where these exist.

However, this presents a tension: the base has to be comprehensive to prevent avoidance but valuation of assets such as private businesses is more problematic when it requires doing regularly. Valuations can be made periodic (for example assets would only need to be revalued every five years) or formulaic methods for assets such as private businesses could be used, but we consider them all to be unsatisfactory. In each case they open the door to additional avoidance opportunities, by creating differences in the treatment of asset classes or by allowing individuals to 'game' the valuation date (adjusting asset holdings around that time).

There is a similar tension in terms of thresholds: administrative costs dictate that an annual wealth tax is limited to those with wealth over a relatively high threshold such as £1 million per individual (£2 million per couple). However, higher thresholds are likely to lead to increased avoidance as families split their wealth over a wider number of people to take advantage of that threshold.

Delivery

The timeline for delivering an annual wealth tax would likely be longer than for a one-off wealth tax. We note an important risk with the delivery of an annual wealth tax is the increased pressure that would come from different interest groups. The resulting requests for exemptions, discounts and reliefs may individually each have some justification. However, the evidence from other countries is that, taken together, such reliefs would fatally undermine the tax base and create scope for avoidance.

Alternatives to a wealth tax

Whether a wealth tax is necessary to achieve the goals set out above, depends on what the alternatives are. The most obvious alternative would be to reform our existing taxes on wealth: in particular IHT, income tax (on investment income), CGT and council tax. These taxes currently lack a clear set of objectives, and their design creates large distortions.

There have been numerous prior recommendations for reform. Each of these proposals differ in the details, but there is a measure of agreement on certain points. We do not set out any precise shopping list of proposals, since we have not examined the design and administrative details to the same degree of precision as for a wealth tax. Instead we summarise the main criticisms of existing taxes and list several broad directions for reform based on recommendations that have been made by others. Implementing any of these reforms requires legislative time and political capital, but all are likely to be administratively easier than a broad-based annual wealth tax.

Other recommendations

In reaching these conclusions, we have relied on the best data that are available for the UK. These come predominantly from the Office for National Statistics (ONS) Wealth and Assets Survey, but this appears to be missing wealth at the top. We supplement these data with information from the Sunday Times Rich List, but anecdotally this list is far from complete. In this respect, unusually, there is substantial uncertainty over even static estimates of how much revenue could be raised by either an annual or one-off wealth tax: our numbers on at least a one-off wealth tax where the behavioural effect may be more limited should be considered a definite lower bound. **We recommend significantly increased investment of resource in wealth data and analysis** by ONS and HMRC. This is important for the understanding of any taxes on wealth, not only a wealth tax specifically.

A second key constraint is capacity within the civil service, particularly at HMRC. Much of the difficulty in implementing a wealth tax lies in the capacity HMRC has to deliver a system. The example of the furlough scheme shows that systems can be designed quickly, but also that relying on quick design can be expensive and is more likely to have problems. Unusually for a tax authority, HMRC does not currently have records on the value of individual properties. This makes the design and implementation of a wealth tax harder, but it also limits the scope for better policy design in other ways, for example performing a revaluation for council tax. Investment in HMRC capacity is essential not only for any possible wealth tax, but for the implementation of any number of other reforms that might be desired.