Tax Research UK

TACs Tax After Coronavirus

Wealth Tax Data – April 2020

The Tax After Coronavirus (TACs) project suggests that the most important role of tax in a jurisdiction is to shape its society and economy in the fashion that its government, and those who elect it in a democracy, might desire. This paper considers that issue with regard t the taxation of wealth.

Summary

This report appraises data on a key issue for consideration with regard to taxation in the After-Coronavirus era, which is whether or not there is capacity for those with wealth to pay more tax in the UK, or not. Having appraised data from the Office for National Statistics, HM Treasury and HM Revenue & Customs four main conclusions are reached.

The first is that in the period 2011 – 18 the national income of the UK was £13.1 trillion, and in that same period the increase in net wealth was £5.1 trillion. It is stressed, that this figure is not for total wealth, but the increase in the value of that net wealth in that period.

Second, the overall effective tax rates on income during this period were unlikely to have averaged more than 29.4% in this period, but those on wealth increases did not exceed 3.4%.

Third, if these rates had been equalised it would, at least in principle, have been possible to raise an additional £174 billion in tax revenue per annum from the owners of wealth.

Fourth, because there has been no attempt at equalisation and because the distribution of the ownership of wealth varies substantially across the UK, which variation is reinforced by factors such as age and gender where substantial inequalities exist, the effective tax rate of the 10% of those in the UK who are in the lowest earning group of taxpayers exceeds 42% of their combined income and wealth gains in a year, but the equivalent effective tax rate for those in the highest ten percent of UK taxpayers ranked by earnings is less than half that at just over 18 percent.

It is, as a result, suggested that there is considerable additional capacity for tax to be raised from those who own most of the wealth in the UK, many of whom are in that top ten per cent of income earners.

Whether or not it would be desirable, or even technically feasible, to raise £174 billion of additional tax from additional tax charges on wealth is not the primary issue addressed by this paper. Nor does it concern itself with the issue of whether that sum should be redistributed simply to redress wealth inequality. A value judgement is not being offered here on the matter of wealth holding, as such. Instead the issue of concern being addressed is that those most vulnerable to precarity within the UK are also those paying the highest overall effective rates of tax.

Whether that is appropriate is the first question raised as a consequence, with the second being whether, if that is the case, any tax increases that might arise in future should have any impact upon those with lower income or earnings. In the context of the coronavirus crisis and the debates that will, inevitably, occur at some point on whether and if taxes should be raised to contribute towards its cost, these appear to be issues of considerable significance.

This evidence in this paper suggests that those with substantially higher income and wealth should bear the majority or all of that cost if it was thought appropriate that anyone should.

That does, however, then suggest that it might also be important that the disparity in the relative tax payments made by those on high and low earnings in the UK should be addressed whether or not overall net additional tax revenue is required, or not. That is because there is now ample evidence that inequality creates significant social costs within any society, and it is apparent that the UK tax system is contributing to this problem.

A manifesto for change that could result from this understanding might include suggestion that:

1. The considerable scope for increasing the effective tax rates on wealth and income derived from it should now be very firmly on the UK policy agenda;
2. Any such increase must be targeted at those with greatest capacity to pay, which would be those in the top deciles of income earners and wealth owners in the UK;
3. Tax increases impacting the income of those in other deciles would be very hard to justify if measures to increase tax on wealth and income derived from it did not also happen;
4. Inequality in the UK could be considerably reduced by taking the taxation of wealth into greater account. Which taxes should be cut for those on lower income levels to help achieve this goal also needs extensive consideration especially given the stresses that have emerged as a result of the coronavirus crisis.

Introduction

In the aftermath of the coronavirus crisis there appears to be a widely held opinion that taxes on wealth should increase. Both the Pope and Archbishop of Canterbury appear to share this view, for example. They do so with the objective of reducing inequality in society. They are not alone. There have been many demands that this be an objective for the After Coronavirus era. For example, the Financial Times has said[i]:

> *Radical reforms — reversing the prevailing policy direction of the last four decades — will need to be put on the table. …. Policies until recently considered eccentric, such as basic income and wealth taxes, will have to be in the mix.*

In this context it is appropriate to test data on the existing tax system that operates in the UK to see whether this demand for increased taxation of wealth is reasonable at this time.

The data used in this report to appraise this issue relates to the period 2011 to 2018. The earlier date has been chosen to reflect the first year when some stability was restored after the global financial crisis of 2008. The second reflects the last year for which wealth data in the UK is currently available.

Data sources
Wealth data comes from the Office for National Statistics and in particular its Wave 3[ii], Wave 4[iii] and Wave 5[iv] wealth surveys. GDP data has come from HM Treasury[v]. Tax paid data has come from HM Revenue & Customs[vi] excepting council tax and

business rates which have come from successive HM Treasury budget reports for the years in question. Wealth distribution data has come from the Office for National Statistics[vii] and income distribution data and data on income taxes paid has come from HM Revenue & Customs for the relevant period[viii]. The effective tax rates of households by deciles for 2017/18 is calculated from data published by the Office for National Statistics[ix]. Data has not been inflation adjusted: the analysis undertaken does not require that this be done.

The object of the exercise undertaken has been straightforward: it has been to compare national income over this period, and tax paid on it, with the increase on wealth in the UK over the same period, and taxes paid on that. The aim has to been to determine whether the two are equivalent, and if not to suggest who has benefited, and by what approximate amount and with what possible potential consequence.

For the purpose of this exercise it has been assumed that all taxes except the following have been paid out of income included in GDP:

- Capital gains tax;
- Inheritance tax;
- Stamp duties;
- Some special schemes e.g. the one-off Swiss bank charge.

Most people, of course, do not pay these taxes. For example, in 2017 – 18 just 260,000 people paid capital gains tax.

The resulting data suggests that gross domestic product over this period and the tax paid on it was as follows:

Table 1 UK gross domestic product and tax paid on it 2011 - 18

	GDP	Tax paid on income	Average tax rate
	£'billion	£'billion	%
April 2011 to March 2018	13,110	3,859	29.4%
Average per annum	1,870	551	29.4%

Gross domestic product is the total national income of the UK in a year, and includes all wages and profits for self-employment, corporate profits, interest, rents and other similar sources of income. It is the usual measure used to reflect our national economic well-being. The noted figure for tax collected does not include taxes on wealth, which are separately accounted for in this exercise[1]. These are noted previously.

The increase in wealth over this same period broad was as follows:

Table 2 UK net wealth increase and tax paid on it 2010 - 18

	Increase in wealth	Tax paid on wealth	Average tax rate
	£'billion	£'billion	%
July 2010 to March 2018	5,186	161	3.1%
Average per annum	669	23	3.4%

Note that because of the way in which this data is collected the increase in wealth is stated over a period of a little over seven years, whilst tax paid is noted for a seven-year period: the average data corrects for this. Also note that this data relates to increases in wealth during this period, and not its value. As such this data relates to a flow of increased value, and not to a stock of wealth.

The increase in wealth over the period was made up as follows:

Table 3 The composition of UK net wealth increase 2010 - 18

	Increase in wealth	Annual average
	£'billion	£'billion
Property Wealth (net of loans)	1,562	202
Financial Wealth (net of loans)	815	105
Physical Wealth e.g. cars, household goods, collections, artworks etc	239	31
Private Pension Wealth	2,570	332
Total Wealth increase (including Private Pension Wealth)	5,186	669
Total Wealth increase (excluding Private Pension Wealth)	2,616	338

It should be noted that much of this wealth, e.g. people's homes and private pension schemes are at present largely exempt from tax but this does not mean that they are outside the tax system: indeed, the fact that they are exempted from tax means that their relationship with and to the tax system is of some considerable significance. The increase in value during the period was, in effect, tax subsidised. Whether in that

[1] Also excluded are what are described as the 'other' sources of revenue for the government in each year, including all the fees and charges that they make for services provided.

context the exemptions of these assets from tax is appropriate is part of the required discussion on any potential wealth tax. The status quo cannot be changed without some of its assumptions being challenged, even if change does not happen after further reflection.

In addition, the fact that increases in the value of homes and pensions may not result in immediate cash benefits to those who own them does not mean that such increases do not contribute to the overall increase in the financial wellbeing of those who gain: both the sense of security that such increases in wealth provide, and the means that they afford to live in greater comfort at some time in the future have direct impact on the manner in which those enjoying them both feel in the present, and on their actual behaviour with regard to consumption and lifestyle choices. As such they cannot be discounted in any discussion on current taxation, not least because they do provide greater capacity tax at present in the vast majority of cases[2].

Taking the annual averages for this combined data produces the following:

Table 4 UK average income per annum, average wealth increase per annum and tax paid on both 2011 - 18

		Average tax paid	Average tax paid
	£'billion	£'billion	%
Average income per annum	1,873	551	29.4%
Average wealth increase per annum	669	23	3.4%
Total increase in financial resources	2,542	574	22.6%

It is immediately apparent that wealth increases are taxed at substantially lower rates than income is. Without seeking to further finesse the assumptions made, if increases in wealth had been taxed at the same rate as income then an additional £174 billion of tax revenue might have been raised in the UK each year. Whether this is desirable is a matter for debate: that the difference in tax paid exists is a fact.

[2] The proverbial problem of the old person living in a valuable property but who has almost no income does not change this argument: it is always possible for taxes on wealth to be rolled up until death in such cases with a modest interest charge maybe being applied. This is no more than a form of equity release arrangement and would be easy to deliver to overcome this issue.

The question then arises as to who might pay any additional tax? To look at this issue earnings by decile[3] as reported by HM Revenue & Customs for 2017/18 have been matched with the likely allocation of the average wealth increase as noted above in that same year, assuming that the wealth increase is apportioned by decile in the same proportion as wealth holding by decile[4].

This results in the following apportionment of the income and wealth increases by decile:

Table 5 Average UK income of taxpayers and wealth increase of taxpayers per decile 2017 - 18

Decile	Average income within the decile	Average wealth increase based on average wealth holding by decile	Total likely average increase in financial wellbeing in 2017/18 by decile
	£	£	£
1 (Lowest)	12,890	158	13,048
2	15,180	1,120	16,300
3	17,500	2,869	20,369
4	20,020	5,815	25,835
5	22,980	9,381	32,361
6	26,550	13,631	40,181
7	31,130	19,096	50,226
8	37,510	26,937	64,447
9	47,510	40,282	87,792
10	90,144	94,495	184,639

The lower income deciles benefit very little from the increase in wealth in society at large: the highest income decile was however, likely to have seen its wealth increase by more than its income in 2017/18.

[3] A decile is simply one tenth of the population being studied: in this case there are 31.3 million taxpayers and so there are likely to be a little over three million people in each decile.
[4] An assumption is made that the deciles for the two measures coincide: this is considered sufficiently plausible to be a reasonable assumption to make.

The tax paid by decile has then to be considered. There are complications in doing so, however. Data on actual tax paid by tax is only readily available by decile for income tax, and is notoriously misleading, as this table shows:

Table 6 UK income tax liability per taxpayer by decile 2017 - 18

Decile	Average income within the decile	Expected tax due on income	Expected actual income tax rate	Cumulative proportion of income tax paid
	£	£	%	%
1 (Lowest)	12,890	230	1.8%	0.5%
2	15,180	660	4.3%	1.9%
3	17,500	1,100	6.3%	4.2%
4	20,020	1,560	7.8%	7.6%
5	22,980	2,110	9.2%	12.1%
6	26,550	2,740	10.3%	17.9%
7	31,130	3,590	11.5%	25.6%
8	37,510	4,750	12.7%	35.7%
9	47,510	6,780	14.3%	50.2%
10	90,144	23,333	25.9%	100.0%

It is easy to see how it can be suggested that the top ten per cent of income earners in the UK bear most of its taxes based upon this data, but the impression is in fact misleading because income tax is but one tax out of many that are paid in the UK.

For this reason estimated overall effective tax rates per decile based on Office for National Statistics data for 2017/18 have been used to estimate actually tax liabilities paid out of income by decile[5]. Using this data as the most reliable available the following estimated overall tax liabilities on income and wealth by decile can be estimated. The wealth tax due is estimated at the overall average rate of tax per annum of 3.4% previously noted, without allowing for the fact that many in lower deciles would appear to have increases in wealth lower than capital gains tax allowances, for example.

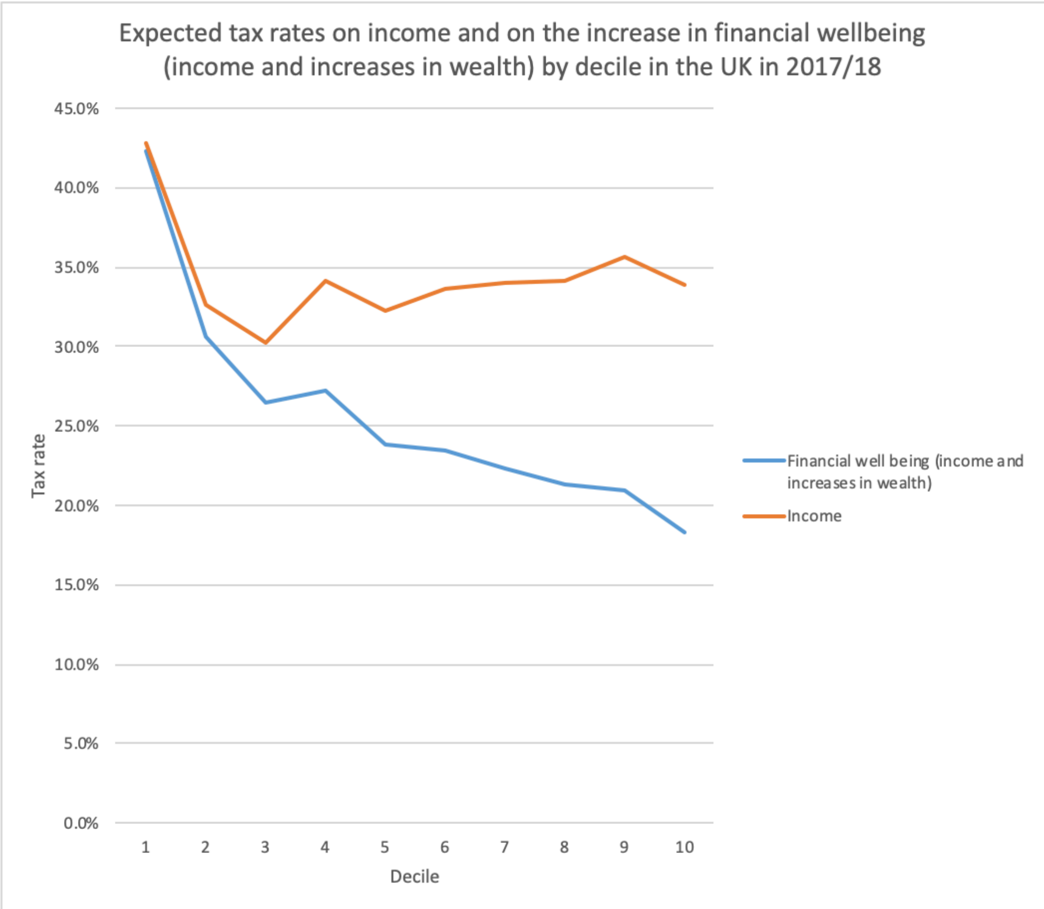
[5] It should be noted that because of slight statistical inconsistencies in the bases of estimation the overall tax rates estimated by the ONS are slightly higher than those previously noted here, but the impact is broadly equal across the range of all incomes.

Table 7 UK tax paid on income and wealth and the two combined by taxpayers by decile 2017 - 18

Decile	Average income within the decile	Average wealth increase based on average wealth holding by decile	Total likely average increase in financial wellbeing in 2017/18 by decile	Effective tax rate on gross income for the decile based on ONS data for 2017/18	Expected total taxes paid out of income	Expected tax on wealth	Expected total taxes	Expected tax rate on increase in financial wellbeing
	£	£	£	%	£	£	£	%
1 (Lowest)	12,890	158	13,048	42.8%	5,517	5	5,522	42.3%
2	15,180	1,120	16,300	32.6%	4,949	38	4,987	30.6%
3	17,500	2,869	20,369	30.2%	5,285	98	5,383	26.4%
4	20,020	5,815	25,835	34.1%	6,827	200	7,026	27.2%
5	22,980	9,381	32,361	32.2%	7,400	322	7,721	23.9%
6	26,550	13,631	40,181	33.7%	8,947	468	9,415	23.4%
7	31,130	19,096	50,226	34.0%	10,584	655	11,239	22.4%
8	37,510	26,937	64,447	34.2%	12,828	924	13,753	21.3%
9	47,510	40,282	87,792	35.7%	16,961	1,382	18,343	20.9%
10	90,144	94,495	184,639	33.9%	30,559	3,242	33,801	18.3%

The expected overall rate of tax on financial wellbeing in 2017/18 by decile, with the rate on income shown for the sake of comparison, was in that case:

Chart 1 UK expected effective tax rate for income taxes and income taxes and wealth increases when combined in 2017 - 18



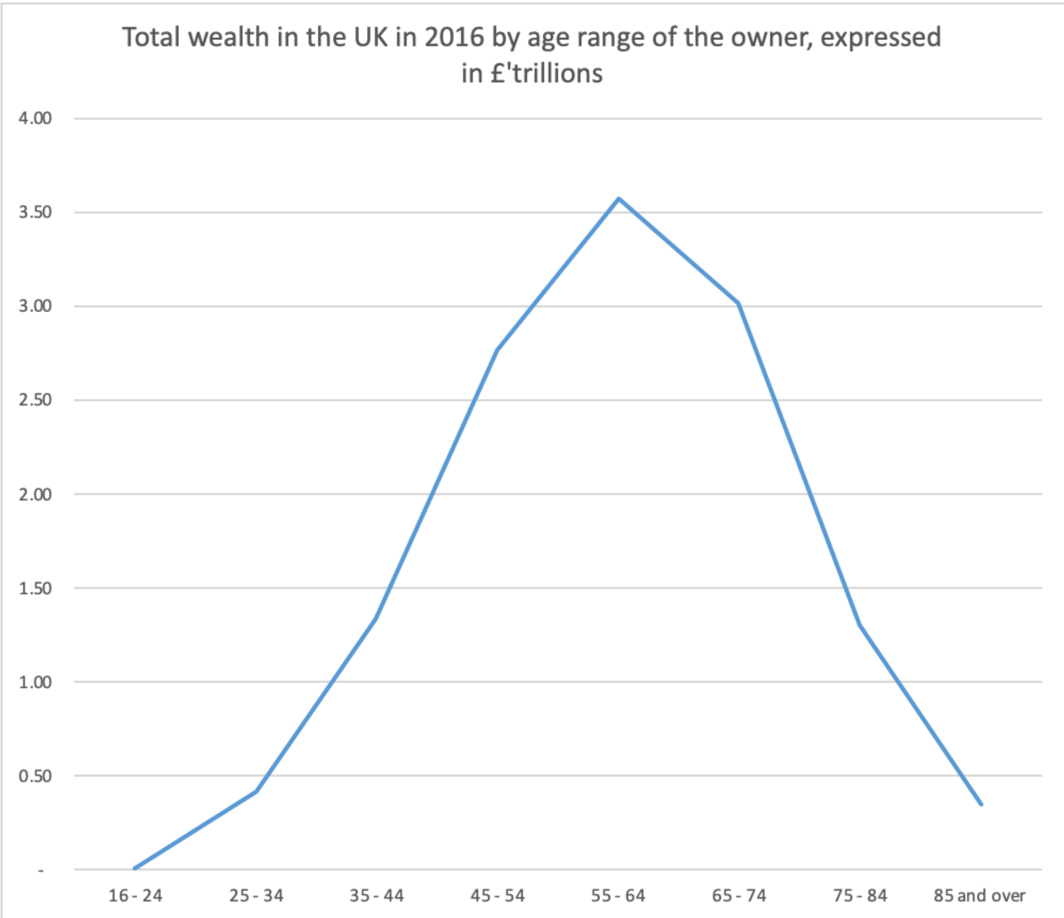
Overall, the effective rate of tax on increases in financial wellbeing in the UK declines steadily as that financial wellbeing increases. The UK tax system is in that case deeply regressive. In contrast, regard to income, the system is regressive at lower levels of income and is then broadly flat, with the highest decile, however, enjoying lower rates of tax paid out of income overall than some enjoying lower income.

This inequality is not just apparent in itself. Two further dimensions are important, one relating to gender inequality and the other to integenerational inequality.

As Tax Justice UK has noted[x], on average women own less wealth than men, with women in the UK owning approximately 40% of the country's total personal wealth. In addition, only 58% of women have a private pension compared to 68% of men whilst by the time a woman is in her early 60s, her average pension pot is a fifth the size of that of a man her age which translates into an annual pension income that is on average £7,000 less for women than it is for men. The distribution of income from savings also suggests that women have many fewer financial assets than men. As Tax Justice UK have again noted, in the tax year 2016-17, 614,000 people in the UK received over £100,000 in income from either property, interest, dividends or other investments, totalling £24.5bn. A little over 75 per cent of this was enjoyed by men suggesting substantial inequality in financial wealth distribution. It is likely as a result that men pay lower overall effective rates of tax than women, exacerbating the inequality that already exists.

The intergenerational dimension of this has also to be considered. Based on 2016 wealth holdings the Office for National Statistics has estimated that total wealth holdings by age of owner are as follows in the UK:

Chart 2 UK total wealth by age of the owner 2016



In that case it is likely that tax rates not only fall with increasing income and wealth but that they also fall steadily with age.

Conclusion

All estimates of the sort noted in the report are only as good as the underlying data permits, but it should be noted that the sources used in this report are the best currently available.

In addition it should be noted that nothing about the use of that data in this report is of an unexpected, or unreasonable nature.

Furthermore, the suggestion made that increases in financial worth can be equated to increases in wellbeing equivalent to the receipt of income by the wealth owner is considered appropriate and fair. It is a concept widely recognised in accounting theory and practice, for example, where all sources of financial gain are treated as having equal significance, whatever their origin.

The result is that some almost inevitable conclusions arise from the observations noted.

The first is that there have been quite exceptional increases in wealth in the period reviewed: the wealth increase in the period was 39.5% of all income recorded within GDP during the same years.

Secondly, given this disproportionate increase it is fair to conclude that it is exceptionally unlikely that the increases in wealth in this period did all arise from what are conventionally called savings. Other factors must have influenced the increase in wealth, of which by far the most significant was the impact of government support for financial markets during this period as a result of its quantitative easing programmes. In addition, the support provided by the government to banks as a result of guaranteeing the deposits of many of those who held accounts with them sustained the wealth of many, whilst the tax subsidy the government provided for many savings arrangements, all if which gave rise to multiplier effects in savings markets, are also likely to have increased wealth disproportionately.

Thirdly, and inevitably, it can then be concluded that the owners of wealth have during the course of this period enjoyed the advantage of considerable financial support from the government that has greatly increased their financial wellbeing.

Fourthly, as has been noted, this increase in wellbeing has not been evenly distributed throughout society. The owners of wealth also tend to be those with higher earnings, and both tend to be concentrated in a small part of society as a whole.

Fifthly, the perverse consequence of this subsidy is that the best off in the UK have enjoyed considerably lower overall effective tax rates on their increases in financial wellbeing over the last decade than have those with lower income and wealth.

Sixth, this issue has implications for the young, who have lower incomes and wealth, and for women, whose estates tend to be smaller than those of men[xi], implying that their wealth holdings are as well.

Despite this it does not follow that increases in wealth should necessarily be taxed in the same way as income is. As is apparent from the nature of the wealth portfolios that have been noted, it has been a policy decision to subsidise the value of homes and pensions through the tax system. What is in that case instead required is that the relationship between the tax systems on income and wealth be reimagined. If, as is likely in the case of a person with already adequate income, an increase in wealth contributes as much (or, when the deferred nature of payment and the consequent risk involved is taken into account, almost as much) to wellbeing as an income does then it is apparent that the current tax system is heavily biased towards those already well off. The precise degree of bias is not very relevant: the bias is so large at present that it is apparent whatever assumptions are made as to the relative worth of increases in income and wealth.

Three things then follow from that. The first is that this disparity needs to be addressed to ensure that a fairer society is created. Second, this has to be addressed because the subsidy given to saving (which is what much of this supposed wealth represents, without an equivalent sum in investment arising as a result) is resulting in the withdrawal of large sums from the productive economy of the UK. This is in turn suppressing growth which should be reflected in wage increases over time, which are clearly not happening. This process is as a result destructive of economic wellbeing for most people. And, third, any increase in taxes on wealth and income streams derived from it should be matched by reductions in the taxes paid by those on lower incomes to accelerate the process of creating equality and to enhance the post-coronavirus wellbeing of many who are now considered essential workers and yet who suffer the double iniquity of low wages and some of the highest effective tax rates in our society.

Whether or not £174 billion of additional tax could be raised for redistribution as a result (as this paper suggests theoretically plausible) is not the point at present. What does matter is that the inequalities are addressed for the wellbeing of society as a whole. A manifesto for change that results might include suggestion that:

1. The considerable scope for increasing the effective tax rates on wealth and income derived from it should now be very firmly on the policy agenda;
2. Any such increase must be targeted at those with greatest capacity to pay, which would be those in the top deciles of income earners and wealth owners in the UK;
3. Tax increases impacting the income of those in other deciles would be very hard to justify if measures to increase tax on wealth and income derived from it did not also happen;
4. Inequality in the UK could be considerably reduced by taking the taxation of wealth into greater account. Which taxes should be cut for those on lower income levels to help achieve this goal also needs extensive consideration.

Publisher note

This paper was written by Professor Richard Murphy, who is Professor of Practice in International Political Economy at City, University of London. It has been published by Professor of Practice in International Political Economy, City, University of London. It has been published by Tax Research LLP, 33 Kingsley Walk, Ely, Cambridgeshire, CB6 3BZ. Richard murphy may be contacted on richard.murphy@taxresearch.org.uk.

Endnotes

[i] https://www.ft.com/content/7eff769a-74dd-11ea-95fe-fcd274e920ca

[ii] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/compendium/wealthingreatbritainwave4/2012to2014/chapter2totalwealthwealthingreatbritain2012to2014

[iii] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/wealthingreatbritainwave5/2014to2016

[iv] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2016tomarch2018

[v] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/878576/GDP_Deflators_Qtrly_National_Accounts_March_2020.xlsx

[vi] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873639/Feb20_Receipts_Table_Published.xlsx

[vii] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2016tomarch2018#aggregate-total-wealth-in-great-britain

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[xi] https://www.gov.uk/government/statistics/table-132-identified-personal-wealth-assets-by-age-and-gender