

## What I want for the Budget part 2: Some real wealth tax...

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I have already noted some tax reforms I would wish for this morning. This is in anticipation of this week's budget. Calls for technical reform though are not enough though. What we also need are programmes for immediate and long term reform to tackle the massive problems wealth inequality is creating here in the UK. I wrote a paper on the short term aspects of this last year that [I share again now](#). The summary says:

*This brief report looks at the financial wealth of the UK, its distribution and its taxation and suggests reforms to:*

- \* *Create a fairer tax system;*
- \* *Reduce inequality;*
- \* *Release funds for use to benefit those who have lost out under Conservative and Coalition governments;*
- \* *Boost investment;*
- \* *Encourage greater tax compliance.*

*It does this by:*

- \* *Suggesting an investment income surcharge be included in the income tax system that would increase the tax rate on the savings and investment income of higher rate taxpayers by 15%. This might raise £6.5 billion of new revenues per annum;*
- \* *Reforming capital gains tax to:*
  - \* *Halve the annual allowance*
  - \* *Have the tax paid at income tax rates*
  - \* *Abolish entrepreneurs' relief*
  - \* *Improve tax compliance*

*These reforms might raise £9 billion a year;*

- \* Restrict some inheritance tax reliefs in advance of more thorough-going reform to raise £0.5 billion a year;*
- \* Review the long term possibility of a wealth tax.*

*These changes raise a total of £16 billion a year.*

*The report also looks at the interaction of tax reliefs and pension contributions given that 40% of UK wealth is in private pension funds. It suggests:*

- \* Restricting all higher rate pensions contribution reliefs, raising maybe £8 billion of tax a year;*
- \* Requiring that 20% of all pension contributions be invested in employment creating opportunities in exchange for the tax reliefs available to pension funds. This might direct £20 billion towards new employment creating opportunities a year.*

*In total then this report suggests the source of £24 billion of tax revenues and £20 billion of investment funds a year as a result of a review of the relationship between wealth and taxation in the UK.*

*I would stress that all this was before looking at land taxation reforms, which were not counted in totals as the benefits would go to local authorities.*

*It was also just a working document and not the only solution I might suggest. Critically, it avoids the issues of wealth taxation itself. What follows is what I wrote on this in chapter 9 of [The Joy of Tax](#) (which was written as if I was presenting a budget) where I first presented necessary changes to capital gains tax that would permit inheritance tax to be eliminated and then suggested a wealth tax:*

*Back in 1965 when capital gains tax was created it made sense to exempt a person's home from charge to this tax. This country was not then the home-owning nation the government of the day wished it to be, and there was a need to build new houses. We wanted to provide that opportunity and an incentive to take it. Property wealth was surprisingly limited. There was a desire to spread it more widely. Times have changed. This country has become one where property represents a significant part of private wealth, but precisely because of the tax relief provided in 1965 that wealth is now hugely concentrated in an ageing minority who can still afford to own their own home. Many of the young now have no chance of owning a house precisely because, after fifty years of tax-free gains having accumulated in the property market, house prices have moved way beyond their reach. What was once a good idea is now a bad idea that is creating social and inter-generational stress in the UK. As a result gains arising from today on UK housing will be taxable. But, because I know that people need to move for*

many reasons during their lives, we will only collect the tax due when a person dies or when they do not reinvest the proceeds of the sale of their house in another home. No one will be denied the chance to live in a house to the value they have been accustomed to owning because of this tax charge.

Capital gains will also apply to the sale of all agricultural land and businesses in future, and upon the gift of all assets whether during life or on death. In the case of owner-managed businesses and family-run farms we recognize that continuity of management is important, and that businesses should not be denuded of capital as a result of tax owing. Consequently we will make special arrangements in these cases to accept part-ownership of the assets sold or gifted in lieu of taxes, but do make clear that such ownership will be actively managed to ensure that the state receives its share of future profits, and special rights shall be attached to any shares accepted as part of such an arrangement to ensure that these rights can be enforced.

With these changes to capital gains tax there will be little reason for inheritance tax in the future and as a result I confirm that this tax, which has been the cause of much vexation, will be abolished.

In place of this tax I am instead proposing a wealth tax. This is now possible for the first time because of the information-sharing agreements that we now have with so many of the world's tax havens. We will pursue such deals with those that have still not signed them. In the meantime any professional adviser who in any way assists a person to avoid tax by exploiting the remaining states who have not cooperated with us will under new arrangements become personally liable for all tax not paid as a consequence, without limit.

The wealth tax will not be charged on main residences, family farms and private businesses that will now be subject to capital gains tax in life, whether gifted or sold, and on death. Nor will it be charged on pension wealth.

This charge will then be on let property portfolios, financial investment portfolios, personal property and other assets of similar type primarily used to generate unearned income, unless they are otherwise exempted by law using the new principles for writing tax law that I have already outlined. The charge will be introduced on all such portfolios worth more than £1 million at the rate of 1 per cent per annum, although the rate will increase with the scale of declared wealth. All wealth will be subject to self-declaration. Any assets not declared will become the property of the state. Any asset undervalued will be subject to sale to the state at the under-declared price if the Department of Taxation decides to exercise that option. Wealth will be calculated on a worldwide basis.

The consequence was a proposal for a wealth tax targeted at financial wealth, or the savings of a very small but immensely rich part of society, to put it another way. And

this, I suggest, is exactly what we now need.

I am not optimistic we will get it.

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*More on the theme of What I want for the Budget will be published shortly.*

*I will be commenting on the Budget on BBC Radio 2 at about 13.30 on Wednesday.*