

## It's time to tax wealth

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There has been some welcome discussion of wealth taxation of late. Given the scale of wealth inequality in society this is overdue. But in this context, it is important to discuss the subject appropriately.

There is, of course, an economic concept of wealth. This, in my opinion, explains stores of value. What this concept does not do is explain capital, which is something quite different.

There is also a legal concept of wealth. This is the claim, backed by law, to exercise control over an asset.

And there is a metaphysical concept of wealth. This relates to the power that the exercise of wealth affords to the person in possession of it, and the consequent reaction amongst those impacted by the decisions of those with that power.

What all three concepts make clear is that wealth is not a thing: it is instead a human construct that could not exist without the support of the society that sustains it.

This matters when wealth taxation is being discussed. A wealth tax is not a tax on capital. Capital is in this context a stock. It is the as yet unconsumed production of an economy. I quite strongly suspect (although I cannot prove) that a wealth tax would have little impact on the total productive capital of a society. To provide a rather straightforward example: a wealth tax would not destroy housing. Housing is capital. It may even encourage more housing to be built. But what it will do is change the exercise of control over housing.

The same is likely to be true of other forms of capital, in my opinion. That is because if a wealth tax provided more people with the opportunity to participate in markets on a more equal footing (as I am sure it would) then the stock of productive capital engaged in real enterprise would increase.

In that case a wealth tax is, in effect, a change to the law on the legal claim people make over stores of value. In effect these stores of value are the opposite of capital. If

capital is currently unconsumed production then wealth is an indication of the right to consume that capital in the future. To put it another way, capital and wealth offer as different perspectives as do investment and savings, to which each is respectively related.

A tax on wealth is not then a tax on productive capacity. It is instead a tax on the unutilised capacity of some to consume.

No one would, I hope, wish to deny a person the right to consume to meet their needs. This logic is implicit in the exemption of what are considered essential items, like food, from value added tax. This concept can easily be replicated in wealth taxation: simply permit sufficient wealth to be held before a charge to a wealth tax arises and in the vast majority of cases this problem is solved. Where it is not (the classic income poor, asset rich elderly person living in their valuable family home is the obvious example) deferred payment is always a viable option.

Seen in this way wealth tax corrects the obvious flaw in VAT, which is its regressive nature. The wealth tax collects what would have been due by those who would have consumed but for the fact that, firstly, they already have enough and, secondly, because they save, which is an act specifically excluded from VAT charge in a great many ways, from the exemption of financial services and second hand properties to the favourable treatment of items like works of art that act as stores of value.

In other words wealth taxes do fit into the architecture of normal taxation. They are consumption taxes: it is just that they tax deferred consumption, and they do so unashamedly progressively because those who are likely to be liable to them are saving, which is an act that economically is now known to be of little benefit to an economy that is suffering from a glut of such savings whilst simultaneously suffering a shortage of investment and weak demand because many cannot meet their needs without recourse to borrowing.

To put this in the framework of the six reasons to tax I outline in the *The Joy of Tax*: this tax is redistributive; does reprice market failure that has produced too much saving; does deliver fiscal policy to redirect the economy to more productive purposes and does support democracy by engaging people with the process of taxation for the common good.

I believe we need wealth taxation. I am quite sure it is now possible because new automatic information exchange regimes with tax havens now mean it is much harder for money to hide. And I think as a result that this issue should be high on the agenda of all political parties seriously seeking power in this country and who have the interests of its people at heart.

It's time to tax wealth.