

Funding a sovereign wealth fund

<https://www.taxresearch.org.uk/Blog/2018/04/02/funding-a-sovereign-wealth-fund/>

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The Guardian reports that IPPR is continuing with its work in tax and related reforms and [has suggested](#):

All UK-born citizens should be given £10,000 as a “universal minimum inheritance” when they turn 25 to help address growing wealth inequality, a thinktank has proposed.

Tax reforms and a selloff of assets including the government’s stake in Royal Bank of Scotland could help create a citizens’ wealth fund worth £186bn by 2029/30, the Institute for Public Policy Research (IPPR) said.

First, let me say I cannot find the document to which this refers, and I have looked*.

Second, let me say I am not bowled over by this idea unlike some things IPPR are doing right now. It gets a headline, but £10,000 at 25 could be significant. It could also be blown in minutes. And it has little impact on overall wealth. Given that £1 million of wealth is not uncommon now in the top 10% of wealth holders in the country this gesture is just that. It would take someone to earn £50,000 a year for 20 years and to spend nothing and pay no tax to get near wealth of that order: that is how distorted wealth now is. Gestures will not address that.

Third, what I did find was a [document on capital ownership](#) on their site which is part of their current output which did include ideas worth discussing. They are promoting three things. One is an employee ownership trust (EOT) in which a majority of a company’s ownership is vested in its workforce. These exist: they are successful. The second is co-ops. I am a fan, although they have their own issues (but everything has). And third is a sovereign wealth fund for the UK, of which they say:

Like other sovereign wealth funds around the world, this would own shares in companies, land and other assets on behalf of the public as a whole. It would thereby manage existing public assets and transform a part of national private and corporate wealth into shared public wealth.

The Fund could be capitalised by a combination of capital receipts from the sale of public assets, revenues from a 'scrip tax' on corporate stocks, and the hypothecation of wealth taxes. The Fund's investment mandate would be set by Parliament but it would be managed by an independent board on behalf of the public. The Fund would act to spread wealth by paying out a universal citizen's dividend to all or particular groups of the population, and by investing in the provision of universal basic services.

I am not sold on all the detail: I will need persuading that selling publicly owned assets is the way to create a sovereign wealth fund, for example. What I do like is the idea of a 'scrip tax'.

I wrote something about this so long ago I cannot find it, so I will start afresh. IPPR say:

The Fund could also be capitalised by a 'scrip tax'. A scrip tax is a tax on corporate profits paid by firms issuing equity to government instead of cash. This transforms a stream of payments in the form of corporation tax into an asset that produces returns. A scrip tax would be paid by issuing new equity, which would moderately dilute shareholder value but would not reduce a corporation's working capital. Given the cumulative, compounding nature of the scrip tax, it could be set at a low rate and still create a substantial stake for the Fund over time.

If corporation tax was increased to 25% for larger companies with the increase payable in shares this tax could raise more than £5 billion pa. It has to be remembered that half of corporation tax is paid by small companies whose shares are usually of little value and where a differential in rates is desirable to reflect differing costs of capital. This does limit the yield.

But remember, it is not just yield that is the aim here. IPPR retains a worrying commitment to the idea that money and wealth are scarce commodities solely created in the private sector, and that theme does seem to run through some of this work. That, of course, is not true. A sovereign wealth fund is best capitalised by quantitative easing: after all, if we could do it for banks we can do it for people. And in terms of scale, people's quantitative easing could outstrip anything like a scrip tax and do so in a timescale where real change could be expected, which £5 billion a year may not deliver.

But this does not mean a scrip tax does not make sense: it does. The reason why is that it gives us all a stake in these businesses in a way that is not apparent now. Even those with pensions have not a clue in the vast majority of cases in what companies they have an interest. A sovereign wealth fund would hold that interest very tangibly, and should be actively engaged with companies to protect stakeholder rights.

This is why such a fund is important. It would say to companies that their arguments on shareholder value are wrong. Shareholders would then, very obviously, include real people who have real interest in tax being paid; who want public services and who

abhor tax abuse, gender pay gaps, casualised working practices, anti-union attitudes and executive pay that abuses the whole system of market capitalism.

We need a sovereign wealth fund, but not to create wealth, because that we can do. We need it to hold wealth to account.

Meanwhile, if you really want to tackle wealth have a wealth tax and [level the playing field on taxes on income](#) so that unearned income is not favoured. Both of these matter. But scrip taxes have a much more important role than raising a bit of money.

** Note to think tanks and others: having pretty websites is all well and good. Being able to find things is better. And if the press mentions you it's a really good idea to make it easy for people to follow up - the IPPR Twitter feed has also not helped this morning.*