Tax After Coronavirus (TACs) : The relationship between...

Published: January 13, 2026, 5:44 pm

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. I have already demonstrated that there is scope for a considerable increase in taxes on wealth in the UK without any economic or social injustice arising. in this post I argue that taxing increases in income and wealth as being synonymous makes economic sense. The post is based on arguments in my 2015 book 'The Joy of Tax'.

The relationship between income, wealth and tax

The link between tax and wealth is not hard to establish. Despite this it does, however, need explanation.

The first linkage between tax and wealth is to be found in many of our most widely known taxes, such as income tax, corporation tax and capital gains tax. These are, in fact, all taxes on the accumulation of wealth. That is because income, if properly defined, records the increase in our wealth over a period of time before taking into account the spending we incur to maintain ourselves. This is, for example, the basis for all accounting. There is, then, nothing unusual about this suggestion.

The reality is that a wide range of activities can contribute to that increase in wealth. Most of us will think of income from work, whether from a wage or the profit from a business activity, as the primary source of that increase, but in practice these are far from being the only sources of this wealth accumulation over time. So, for example, cash received from rents, investment income, the sale of our own property at a profit, and from the receipt of gifts can all increase our cash wealth just as much as earnings from work can.

Despite this, historically many of these sources of increase in our financial wellbeing have been treated differently from income for tax purposes. However, the reality is that as far as anyone is concerned (and I stress, anyone) £1 received from one source of accumulated wealth is identical in economic value to £1 received from any other source. In fact, when put side by side as coins, or when mixed together in a bank account, it would be impossible for a person to tell whether a particular £1 was derived from earned income resulting from work, or from savings income (such as interest on a bank account), or from a capital gain on the sale of shares or a house, or a gift from another person. A pound is a pound, is a pound and each contributes in the same way to a person's well-being, albeit (as is widely economically understood) the more of such pounds that a person has the less that each one is individually significant to the person who has them, which is why progressive taxation not only makes sense, but is economically necessary.

For this reason, the argument, often put forward, that the taxation of capital should be at lower rates than the rate applied to income makes no sense in economic terms.

That is not to say that it might, at one time, have made sense in practical terms. At the time when tax havens were impenetrable and those who could move income and wealth to them could basically evade their tax obligations in the location where they were resident then there was a real problem with taxing wealth. That problem was simply finding it. Governments reacted to this situation in a way that was deeply socially unacceptable, and profoundly helpful to all owners of capital, and which actually encouraged the cheats, which was to induce it to stay onshore by offering lower tax rates on it. It was a desperate measure to seek some revenue when the prospect of none was thought to be the potential alternative.

However, that risk has now largely gone. The automatic information exchange of data from tax havens, that happened to no small extent because of **pressure brought to bear by the tax justice movement, means that a great deal of wealth can now be traced on the world, at least through declarations on the beneficial ownership of companies and trusts for tax purposes, and on the exchange of data on income earned offshore. So this pressure to reduce rates no longer exists: when capital and income derived from it can be located then rates can be equalised.**

That is the position that we are now in. The argument that low rates of tax on capital are either justified or are a practical necessity no longer hold water. The time has come then to review wealth taxation and to begin its normalisation: no one should gain a tax advantage in society because they can increase their well being through wealth accumulation rather than work. The Tax After Coronavirus (TACs) project intends, amongst many other things, to tackle this issue.