The Taxing Wealth Report 2024

Every politician's guide to "How to pay for it"[1]

The background to this report:

The under-taxation of wealth in the UK

Brief summary

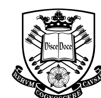
This note suggests that, based on a review of taxes paid, UK national income and changes in UK wealth from 2011 to 2020:

1. The UK has a tax system on income that is regressive at the lowest levels of income, broadly flat over the middle range of UK incomes, and is only slightly progressive at the upper end, without however replicating on highest incomes the tax rates paid by those on lowest income.
2. Has a very generous system of taxation on wealth that means that whereas income was on average taxed at 32.9 per cent over this period, increases in wealth were only taxed at 4.1 per cent.
3. The combined average tax rate on income and increases in wealth over this period amounted to 25.6 per cent per annum.
4. Because of the way in which wealth is distributed in the UK, with most being owned by the top ten per cent of the population, this differential in tax rates means that the UK actually has a deeply regressive tax system.
5. Those with lowest income in the UK were likely to have a combined tax rate on income and increases in wealth of approximately 44 per cent per annum during this period whilst those in the highest decile of earners in the UK were likely to

[1] This note forms a part of 'The Taxing Wealth Report 2024' published by Finance for the Future LLP, which is UK LLP number OC329502, registered at 33 Kingsley Walk, Ely, Cambridgeshire, CB6 3BZ. See https://www.financeforthefuture.com/taxing-wealth/. This note was written by Richard Murphy FAcSS FCA FAIA (Hon), Professor of Accounting Practice, Sheffield University Management School, who is a director of Finance for the Future LLP. © Finance for the Future LLP 2023.

The Taxing Wealth Report 2024 is a joint project between:

Finance for the Future and



Sheffield University Management School

pay no more than 21.5 per cent per annum on their combined income and increase in wealth.

6. If the tax rates on income and increases in wealth were equalised then additional tax revenue of £170 billion a year might be raised in the UK as a result.

What this suggests is that:

a. There is significant additional capacity to tax in the UK, although only from those with most income and wealth.
b. A strong case for reducing the tax paid by those on lowest incomes can be made.
c. On balance, so long as additional sources of tax revenue are charged only (or almost entirely) on those with the highest income in the UK then there is no reason for any UK government or political party seeking power to suggest that there is no additional capacity to tax in the UK: that capacity very clearly exists.

The Taxing Wealth Report 2024 will explore about thirty ways in which this additional revenue might be raised in ways consistent with these findings.

Background

There has been much discussion of wealth taxation in the UK in recent years[2] [3]. The prospect of taxing wealth more has appeared increasingly attractive, most especially since the onset of the Covid crisis. Even the editorial board of the Financial Times has suggested that the issue requires further investigation[4]. More recently however, as a cost-of-living crisis has engulfed the country, politicians of all parties appear to have backed away from the issue, suggesting that they have no plans to increase taxation on wealth, let alone to introduce a wealth tax in the UK[5]. It is against this background that this report has been written.

The debate on wealth taxes in the UK has lacked three things. The first is a broader perspective, because far too much attention has been given to wealth taxes rather than undertaking how we might better tax income and gains derived from wealth. The second is data on what is actually achievable within the current UK political climate. The third is focussed policy proposals. These are what the Taxing Wealth Report 2024 will add to

[2] https://www.theguardian.com/commentisfree/2023/aug/28/wealth-tax-britain-labour-general-election
[3] https://www.lse.ac.uk/News/Latest-news-from-LSE/2020/L-December/Wealth-Commission-report#:~:text=The%20Commission%20concludes%20that%20a,society%20in%20times%20of%20crisis.
[4] https://www.ft.com/content/7eff769a-74dd-11ea-95fe-fcd274e920ca
[5] https://www.theguardian.com/politics/2023/aug/27/rachel-reeves-rules-out-wealth-tax-if-labour-wins-next-election

debate.

However, before any of those issues can be addressed the capacity to charge additional tax on wealth in the UK needs to be established. It is this issue that this note addresses.

Summary

This note seeks to appraise available data on 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 – 20 the national income of the UK was £15.8 trillion whilst in that same period the increase in net wealth was £5.8 trillion. It is stressed, that this last 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 all income during this period were likely to have averaged 32.9 per cent, but those on wealth increases did not exceed 4.1 per cent.

Third, if these rates had been equalised it would, at least in principle, have been possible to raise an additional £170 billion in tax revenue per annum from the owners of wealth.

Fourth, because there has been no attempt at equalisation of these tax rates and because the distribution of the ownership of wealth is heavily concentrated in the UK's population, the effective tax rate of the 10 per cent of those in the UK who are in the lowest earning group of taxpayers is likely to exceeds 44 per cent of their combined income and increases in wealth during 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 21.5 per cent.

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 £170 billion of additional tax from additional tax charges on wealth is not the primary issue addressed by this note. Instead, the issue of concern being addressed here is that those most vulnerable to precarity within the UK are those who are paying the highest overall effective rates of tax.

Whether that is appropriate is the first question raised.

The second is whether, if that is not the case, any tax increases that might arise in future should have any impact upon those with lower income or gains in wealth.

The evidence in this paper suggests that those with substantially higher income and wealth should bear the majority, or all, of the cost of additional taxes that might be required if additional public services are to now be provided.

That same evidence suggests that if additional taxes are required in the future to meet the costs of controlling inflation by withdrawing spending power from within the economy then that too should be met by imposing those additional charges on those with substantially higher than average income and wealth in UK society.

One further conclusion is reached, and that is that if there is to be a cost to be paid as a result of the essential transition that must now take place to a sustainable economy then this too must fall on those best able to make payment, which the evidence in this paper makes clear are those with substantially higher than average income and wealth in UK society.

So clear is the evidence on this issue that another conclusion emerges, which is that so great is the disparity in the relative tax payments made by those on high and low earnings in the UK that there is prima facie evidence that this should be addressed whether or not overall net additional tax revenue is required. 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.

Introduction

During the Covid crisis a consensus appeared to emerge that suggested that taxes on wealth should increase. Both the Pope and Archbishop of Canterbury appear to share this view[6] for example. They did so with the objective of reducing inequality in society. They were not alone. For example, the Financial Times said in an editorial comment that[7]:

> *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 the aftermath of that crisis and the supposed return to 'normality' that so many were desperate for some of those calls have been forgotten.

There are, however, a number of good reasons to think that they should be revived. These include:

[6] https://www.taxresearch.org.uk/Blog/2020/04/13/the-need-to-rid-ourselves-of-neoliberal-thinking/
[7] https://www.ft.com/content/7eff769a-74dd-11ea-95fe-fcd274e920ca

1. To tackle the consequences of the cost-of-living crisis that has emerged as the UK and other countries have emerged from Covid lockdowns in 2021, and thereafter.

2. To alleviate the pressure on government financing that has been a feature of the post-Covid era.

3. To add tax into the armoury of tools available to tackle inequality.

The last point is particularly relevant when it is understood that tax is one of the most powerful instruments available to a government to shape the society and economy for which it is responsible in the way that it thinks those who elected it might desire.

There are in essence only four bases on which tax can be charged:

- Income (e.g., income tax, corporation tax, capital gains tax, national insurance)
- Transactions (e.g., value added tax, excise and customs duties, specialist taxes e.g. on waste, air traffic and such like)
- Land use (e.g., council tax)
- Wealth (e.g., inheritance tax).

Of these, taxation of wealth is by far the least common in the UK. Only 3.7 per cent of UK estates currently pay this tax[8]. As a result it is appropriate to review the existing tax system that operates in the UK to see whether a demand for the increased taxation of wealth or of income derived from it is reasonable at this time.

The data used in this report to appraise this issue relates to the period 2011 to 2020, which is the last year for which suitable wealth data is available from the Office for National Statistics. The earlier date has been chosen to reflect the first year when some stability was restored after the global financial crisis of 2008.

[8] https://www.gov.uk/government/statistics/inheritance-tax-statistics-commentary/inheritance-tax-statistics-commentary#:~:text=The%20total%20number%20of%20UK,2021%20were%20%C2%A35.76%20billion.

Data sources for this note

Wealth data comes from the Office for National Statistics and in particular its wealth surveys[9] and [10]. GDP data has come from HM Treasury[i11]. Tax paid data has come from HM Revenue & Customs[12] 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[13] and income distribution data and data on income taxes paid has come from HM Revenue & Customs for the relevant period[14]. The effective tax rates of households by deciles for 2019/20 is calculated from data published by the Office for National Statistics[15] Data has not been inflation adjusted: the analysis undertaken does not require that this be done.

The object of the exercise that has undertaken has been straightforward: it has been to compare national income over this period, and tax paid on it, with the increase in wealth in the UK over that same period, and the taxes paid on that increase in wealth. The aim has to been to determine whether the taxes paid on these two sources of financial wellbeing 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.

[9] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020

[10] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/individualwealthwealthingreatbritain

[11] https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp

[12] https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk

[13] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020

[14] https://www.gov.uk/government/statistics/percentile-points-from-1-to-99-for-total-income-before-and-after-tax

[15] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014

Most people, of course, do not pay these taxes. For example, in 2019-20 just 301,000 people paid capital gains tax[16].

Findings

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 – 20

	GDP £'billion	Tax paid on income £'billion	Average tax rate %
April 2011 to March 2020	15,775	5,193	32.9%
Average per annum	1,753	577	32.9%

Gross domestic product is the estimated total national income of the UK in a year, and includes all wages and profits from 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[17]. These taxes have been noted previously.

It is also important to note that over this period the Office for National Statistics, which is responsible for preparing this data for the UK, included in its estimate of GDP what it describes as imputed rentals for housing[18]. This figure is the deemed rent that people who are owner-occupiers of houses in the UK are considered to pay themselves each year. The sum is included in GDP to make the data for the UK comparable with that of countries like Germany where renting (which cost is included in GDP when mortgage payments are not) is much more commonplace. It is, however, the case that this deemed payment is never actually paid and as such it can never be taxable, and as such the figures for GDP included in this analysis have been stated net of this deemed rental payment so that the actual likely taxable income of the country is used as the basis for estimation of likely tax rates paid. The adjustment is significant: this deemed rental payment can make up ten per cent of GDP in each year in the UK.

[16] https://www.gov.uk/government/statistics/capital-gains-tax-statistics

[17] 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.

[18] https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/datasets/consumertrendschainedvolumemeasureseasonallyadjusted

The increase in wealth over this same approximate period was as follows (the periods not being absolutely identical because precisely matching official data has not been published):

Table 2 UK net wealth increase and tax paid on it 2010 – 2020

	Increase in wealth £'trillion	Tax paid on wealth £'trillion	Average tax rate %
July 2010 to March 2020	5,773	220	3.8%
Average per annum	592	24	4.1%

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 nine years, whilst tax paid is noted for an exact nine-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 – 20

	Increase in wealth 2010-2020 £'billion	Annual average £'billion	Total wealth 2020 £'billion
Property Wealth (net)	1,930	198	5,458
Financial Wealth (net)	624	64	1,933
Physical Wealth	304	31	1,385
Private Pension Wealth	2,915	299	6,445
Total Wealth (including Private Pension Wealth)	5,773	592	15,221
Total Wealth (excluding Private Pension Wealth)	2,857	293	8,776

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 exempt from tax means that their relationship to the tax system is of some significance when considering issues related to the taxation of wealth. Their increase in value during the period was, in effect, tax subsidised. Consideration of whether the exemptions from tax that these assets enjoy is appropriate is a necessary part of any discussion of the taxation of wealth and income derived from it. The status quo cannot be changed without some of its assumptions being challenged.

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 consequent 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[19].

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

[19] 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 perhaps being applied. This is no more than a form of equity release arrangement and would be easy to deliver to overcome this issue.

Table 4 UK average income per annum, average wealth increase per annum and tax paid on both 2011 – 20

	£'billion	Average tax paid £'billion	Average tax paid %
Average income per annum	1,753	577	32.9%
Average wealth increase per annum	592	24	4.1%
Total increase in financial resources	2,345	601	25.6%

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 £170 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.

The obvious question that then arises refers to who might pay this additional tax. To look at this issue earnings by decile[20] as reported by HM Revenue & Customs for 2019/20 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[21].

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

[20] A decile is simply one tenth of the population being studied: in this case there are 31.4 million taxpayers in 2019/20 and so there are likely to be a little over three million people in each decile.
[21] An assumption is made that the deciles for the two measures coincide: this is considered sufficiently plausible to be a reasonable assumption to make.

Table 5 Average UK income of taxpayers and wealth increase of taxpayers per decile 2019-20

Decile	Average income within the decile 2019/20	Average wealth increase based on average wealth holding by decile	Total likely average increase in financial wellbeing in 2019/20 by decile
	£	£	£
1 (Lowest)	13,920	118	14,038
2	16,360	979	17,339
3	18,770	2,518	21,288
4	21,400	5,137	26,537
5	24,470	8,338	32,808
6	28,190	12,121	40,311
7	33,020	16,940	49,960
8	39,800	23,797	63,597
9	50,520	35,550	86,070
10	84,730	83,068	167,798

Those in the lower income deciles benefit very little from the increase in wealth in society at large: those in the highest income decile were however, likely to have seen their wealth increase by almost as much as their income in 2019/20.

The tax paid by decile has then to be considered. There are complications in doing so. Data on actual tax paid 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 2019-20

Decile	Average income within the decile 2019/20	Expected income tax on income	Expected actual income tax rate	Cumulative proportion of income tax paid
	£	£	%	%
1 (Lowest)	13,920	240	1.7%	0.5%
2	16,360	660	4.0%	2.0%
3	18,770	1,090	5.8%	4.3%
4	21,400	1,630	7.6%	7.9%
5	24,470	2,190	8.9%	12.6%
6	28,190	2,860	10.1%	18.8%
7	33,020	3,750	11.4%	27.0%
8	39,800	4,950	12.4%	37.7%
9	50,520	7,030	13.9%	53.0%
10	84,730	21,640	25.5%	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 2019/20 have been used to estimate actually tax liabilities paid out of income by decile[22]. 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. This might overstate the tax that they actually pay, albeit only slightly given the sums involved.

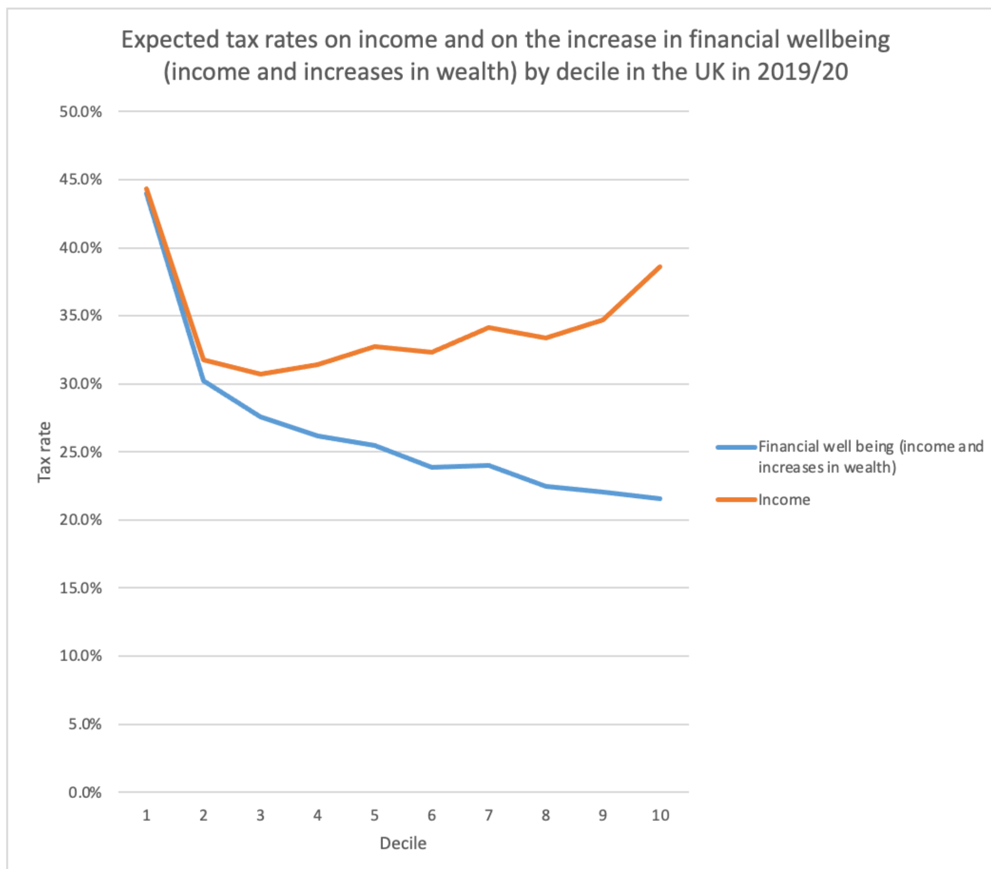
[22] It should be noted that because of slight statistical inconsistencies in the bases of estimation the overall tax rates estimated by the ONS are slightly higher than those previously noted here, but the impact is broadly equal across the range of all incomes.

Table 7 UK tax paid on income and wealth and the two combined by taxpayers by decile 2019-20

Decile	Average income within the decile	Average wealth increase based on average wealth holding by decile	Total likely average increase in financial wellbeing in 2019/20 by decile	Effective tax rate on gross income for the decile based on ONS data for 2019/20	Expected total taxes paid out of income	Expected tax on wealth	Expected total taxes	Expected tax rate on increase in financial wellbeing
	£	£	£	%	£	£	£	%
1 (Lowest)	13,920	118	14,038	44.3%	6,173	5	6,178	44.0%
2	16,360	979	17,339	31.8%	5,197	40	5,238	30.2%
3	18,770	2,518	21,288	30.7%	5,763	104	5,867	27.6%
4	21,400	5,137	26,537	31.4%	6,726	212	6,938	26.1%
5	24,470	8,338	32,808	32.8%	8,017	345	8,361	25.5%
6	28,190	12,121	40,311	32.3%	9,110	501	9,611	23.8%
7	33,020	16,940	49,960	34.2%	11,278	700	11,978	24.0%
8	39,800	23,797	63,597	33.4%	13,292	984	14,276	22.4%
9	50,520	35,550	86,070	34.7%	17,521	1,470	18,990	22.1%
10	84,730	83,068	167,798	38.6%	32,693	3,434	36,127	21.5%

The expected overall rate of tax on financial wellbeing in 2019/20 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 2019-20



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, with regard to income the system is regressive at lower levels of income and is then broadly flat in middle income ranges, with rising rates returning for the highest decile who do, however, enjoy lower rates of tax paid out of income overall than some on much lower incomes.

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

As the Women's Budget Group has noted[23], on average women own £101,000 less wealth than men and on average men have £51,000 more pension savings than women do. The distribution of income from savings also suggests that women have many fewer financial assets than men.

As Tax Justice UK has noted[24], 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 gender 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.

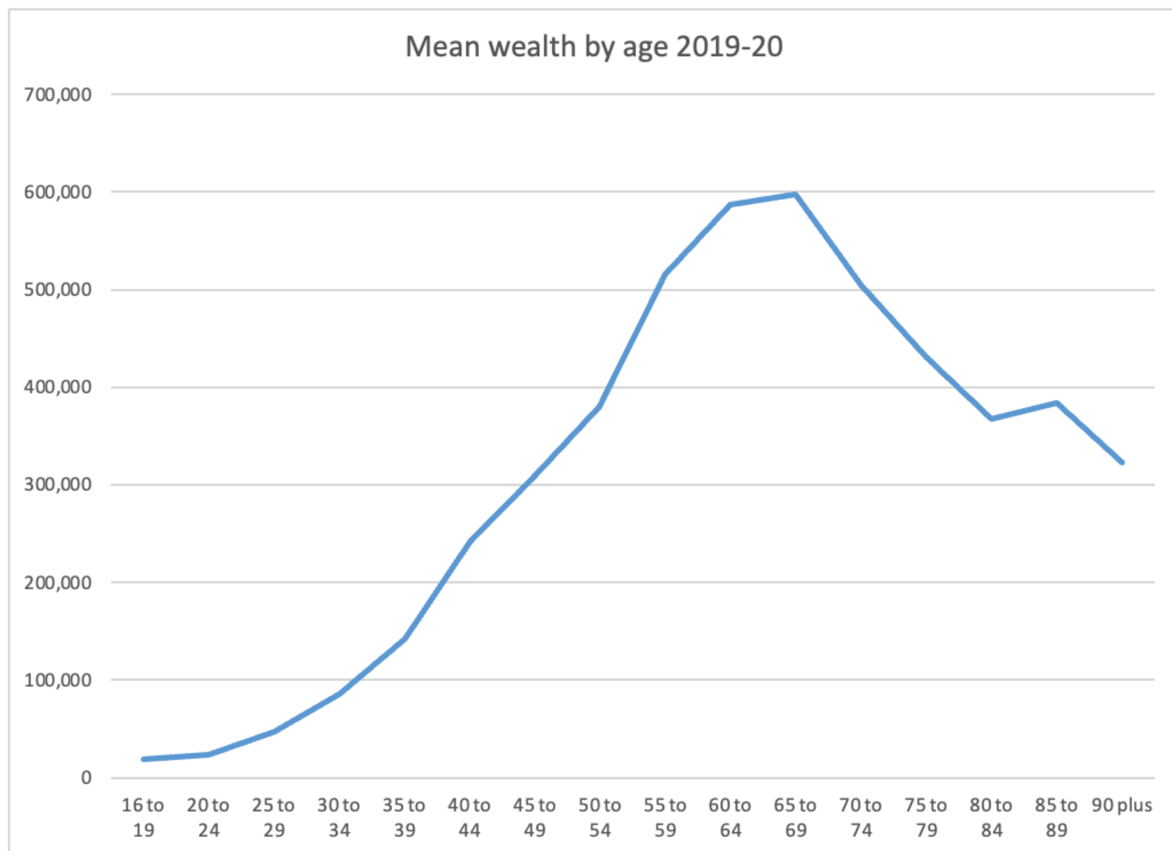
The intergenerational dimension of this has also to be considered. Based on 2019/20 wealth data the Office for National Statistics has estimated that mean wealth holdings by age of owner are as follows in the UK[25]:

[23] https://wbg.org.uk/analysis/why-wealth-tax-is-a-feminist-issue/#:~:text=The%20under%2Dtaxation%20of%20wealth,ripple%20effect%20on%20private%20pensions.

[24] https://www.taxjustice.uk/uploads/1/0/0/3/100363766/wealth_tax_and_gender_-_final_paper.docx.pdf

[25]

Chart 2 UK wealth by age of the owner 2019-20



Given this heavily skewed distribution 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 and are almost entirely drawn from official UK government data.

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 wealth are equivalent for the purposes of appraising well-being to the receipt of income by the wealth owner is considered appropriate and fair. That these two sources of well-being can be equated 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 reviewed was 33.8% of all income recorded within GDP during the same years.

Secondly, given this disproportionate increase 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.

Thirdly, the tax subsidy the government provided for many savings arrangements such as ISAs and pension funds, all if which gave rise to multiplier effects in savings markets, are also likely to have increased wealth disproportionately. It can inevitably be concluded as a result 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 throughout this report, 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. They also tend to be older than average within the population as a whole whilst men will also be disproportionately represented amongst their number.

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.

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 in particular been a consistent policy of successive governments of different political persuasions over long periods of time to subsidise the value of homes and pensions through the tax system. This is unlikely to change in the foreseeable future.

In that case what is required now 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 either as much or almost as much an increase to their wellbeing as an increase in income might do (which assumption is dis cussed in an appendix to this note) then it is apparent that the current tax system is heavily biased towards those

who are already well off. The precise degree of bias is not very relevant: the bias is so large at present that it very clearly exists.

Three things then follow from that observation. The first is that this disparity needs to be addressed to ensure that a fairer society is created.

Second, this issue has to be addressed because the subsidy given to saving is resulting in the withdrawal of large sums of money from the productive economy of the UK without any matching increase in investment taking place. That is because savings in housing, most of which is not new, or shares, most of which do not represent new share issues used to fund new corporate investment, or in commercial property, most of which is not newly constructed, might make sense to City based fund managers but they rarely provide new money for actual investment that creates new activity or employment in the UK economy. As a result, these subsidies to savers, most of whom are already wealthy, actually suppress growth at present, resulting in a loss of economic wellbeing to most people.

Third, if inequality is to be addressed a large part of 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 wider wellbeing within our economy as a whole, which will overall provide a significant boost to GDP as those on lower incomes tend to spend all that they earn, creating significant economic multiplier effects as a consequence.

Whether or not £170 billion of additional tax could be raised for redistribution as a result (as this paper suggests might be theoretically plausible) is not the point. What does matter is that the inequalities that the existing system of providing subsidies to savings through the tax system be addressed for the wellbeing of society as a whole.

Appendix

Technical discussion on equating income and increases in wealth

In case of doubt as to the relevance of the approach used in this note, where increases in wealth in a period have been treated as being equivalent to the receipt of income in that same period, it is important to note that it is entirely consistent with the method of recording profit in UK and under international accounting standards.

The primary method of computing the income of any entity using these standards is to compare the net worth of a company at the end of a period (£A) with the net worth of that same company at the beginning of the period (£B) having allowed for sums withdrawn from the entity during the period by its owners, whether by way of dividend, share buyback or other means (£C), and the issue of new shares or other equity (£D).

In other words, profit (£Y) is calculated as:

$$£Y = £A - £B + £C - £D$$

This may come as a surprise to those who presume that the income of an entity during a period is the figure included as net profit after tax in the profit and loss account or income statement of the entity in question (£E). This is not the case. The movement in the value of the balance sheet at the end of a period (£A) is, instead, reconciled with the value at the beginning of the period (£B) by publication of three separate statements:

- The income statement (or profit and loss account, as some might know it), which estimates the net sum earned from trading, having allowed for tax during the course of the period (£E).
- The statement of comprehensive income for the period, which recognises the change in the market value of the assets and liabilities of the enterprise during the course of the period when stated at fair market value at both the opening and closing dates, some of which movements may be taxable. (£F)
- A statement of the change in equity arising during the course of the year, which explains the sums withdrawn from the entity during the period by its owners, whether by way of dividend, share buyback or other means (£C), and the issue of new shares or other equity (£D).

As a result, and given that the changes in equity have already been included in the calculation noted above, earnings (£Y) can also be stated as:

£Y = £E + £F

To translate this to the context of this note, the earnings a person has during a period broadly equate to the earnings a trading entity records in its income statement (£E). It is this figure that most think represents their total income in the year. This idea is also implicit in most tax systems, largely because almost all of our taxes were created before modern theories of income and accounting were created.

This idea of income is, however, wrong: a person's total income in a period is their increase in net worth having allowed for what they have consumed and should therefore also include the change in the fair value of the assets that they own and sums that they owe during the course of period, as is reflected in modern accounting (£F). In that case the inclusion of the change in a person's net asset value during a period in income for determining effective tax rates as done in this note is not just appropriate, but theoretically required by accounting practice and the economic theory that it is based upon.