Funding the Future

What the Taxing Wealth Report 2024 has not done, and wh...

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There are a few bits of the final [Taxing Wealth Report](#) 2024, [in whichever format it is produced](#), that I have written but which have yet to appear here. One of these is a concluding note that records the issues that the Report could have addressed but which I chose to leave aside because I imposed a constraint on myself that I would only suggest reforms to existing UK taxes when undertaking this work.

As it turned out, that constraint has not prevented the Report from presenting significant proposals for reform, so I do not regret working in the way that I did.

That said, as I make clear in the note that I reproduce below, there are a lot more issues that might be considered in future iterations of this work. They won't be commencing any time soon for reasons that I have noted in another post this morning, but that does not mean that they will not happen.

What the Taxing Wealth Report 2024 has not done, and what might happen next

Introduction

The Taxing Wealth Report 2024 set out with a very specific objective to fulfil. It sought to demonstrate that any government that wished to transform the delivery of public services in the UK and, if it wished, fund necessary investment in the net–zero transition that the UK must undergo over coming decades could find the necessary funds to do so if it was willing to transform the taxation of those with wealth in the UK. It has achieved both those goals and has done so based upon the self-imposed constraint of not considering the creation of new taxes, like land value taxation or wealth taxes. Instead, for reasons of political pragmatism, it was decided to only propose reforms of existing UK taxes, tax reliefs, and allowances.

Given the limitations of this self-imposed remit, the suggested levels of potential funds that might be raised are substantial. It is suggested that maybe £90 billion worth of additional taxes could be raised. The incidence of these additional taxes would fall almost entirely on those in the top decile, or less, of income owners in the UK.

In addition, by proposing reforms to the use of funds saved in tax-incentivised arrangements such as ISAs and pension funds, it is suggested that more than £100 billion of additional saved funds could be made available to provide the capital for investment in the UK's net–zero transition. In combination, these sums exceed the £170 billion per annum by which the Taxing Wealth Report 2024 suggests that wealth is undertaxed each year in the UK at present[1].

All this being said, there are things that the Taxing Wealth Report 2024 has not done. In particular, there are existing taxes in the UK that look to be increasingly unfit for purpose. If further work to expand the Taxing Wealth Report 2024 was undertaken in the future, then considering the replacement of these outdated taxes would be high on the list of priorities. The following possibilities have not been considered in the Taxing Wealth Report 2024 but are noted as areas for future tax reform. They suggest that this work is not finished as yet.

National insurance

National insurance is now an outdated tax. It was created more than a century ago by a pre-First World War government that wished to create an improved social contract between the people of the UK and its government that had an implicit insurance element within it. The promise made was that those who reached the state retirement age would thereafter receive a pension sufficient for them to live upon when they could no longer work. The arrangement was intended to be self-funding.

National insurance was substantially expanded after World War II as a result of the state's social contract being expanded to offer enhanced unemployment and other benefits so that the destitution of the 1930s would not be revisited, with an additional offer of free healthcare from cradle to grave also being supposedly provided in exchange for national insurance contributions.

In practice, national insurance long ago ceased to provide all the funding required to honour these commitments, and it is now no more than another tax. As the Taxing Wealth Report 2024 has made clear, the remaining implicit social contract between the government and those in work inherent in that contract is now deeply problematic. That is not least because the basis of charging means that those who earn their income from investments, rents and other such sources do not contribute to the well-being of society in the way that those who work for a living do but they can still secure at least some of the benefits might arise despite that fact. The consequence is some particularly unjust features of the UK tax system. Perhaps even worse, this tax undermines the incentive for anyone to provide employment and so to deliver the fundamental goal of full employment that almost every government since 1945 has sought to achieve.

Many people have suggested that this problem can be overcome by merging the income tax and national insurance systems in the UK. There are, however, many problems that might arise from doing so, including some very high-income tax rates compared to other countries. There would also be difficulties in finding an appropriate basis for taxation for those in retirement who do not pay national insurance contributions at present. Unsurprisingly, the many attempts to find a way to merge these two taxes have failed as a result.

Something much more radical is needed as a consequence if the substantial revenues raised by national insurance contributions (£176.9 billion in the 2022/23 tax year) are to be replaced in a way that is just and equitable and, as a result, progressive. There is a need for a progressive indirect tax as a consequence.

The most likely option available is a tax that is only now technically feasible, which would be a financial transaction tax on all flows through UK sterling bank accounts whether owned by individuals or companies, and maybe even charities and other such organisations.

To make this tax fair, the charge should start at a very low rate and remain at that level until at least UK median earnings are likely to be enjoyed, whereafter the rate should increase progressively. Arrangements to prevent charges on transfers between accounts under common control e.g. between a person's current, deposit, mortgage, loan and credit card accounts, and maybe between a person and other members of their family, would be necessary to prevent unfair charges. The same might also be true within groups of companies.

The rate of this tax, which would be on all flows, including those relating to savings and investments except as noted above, would be set to ensure that those with limited financial resources would pay no more, and quite possibly less, than they do at present in national insurance. When it comes to companies, this charge might represent a turnover tax, intentionally reflecting the cost that their activities impose upon society, to which they should make an appropriate contribution. These sums would replace the employer’s national insurance charge. It is likely that this would most likely favour those who employ large numbers of people since part of the overall employer’s national insurance liability might then pass to those who generate their incomes without providing the social benefit of employment. This also addresses some of the problems arising from AI and the increasing use of robots in the economy.

Further details of this proposed radical tax reform that would need considerable work to develop were as a result outside the scope of the Taxing Wealth Report 2024.

Council tax

As the section of the Taxing Wealth Report 2024 on council taxation makes clear, the current council tax in the UK provides little opportunity for radical reform, or for the raising of additional tax revenues because there are far too few high valued properties for any such reform to have any significant impact on the future funding of local authorities in this country.

That said, any system of local taxation within the UK is inherently difficult because of the considerable variation in population density throughout the country as well as the enormous variations in both income and wealth between the UK’s regions and countries. These variations necessarily require that those parts of the UK that are affluent must raise taxation revenues in excess of the local need for redistribution to those parts with below-average incomes and wealth, and this necessarily undermines the scale of local autonomy that might be attainable by any local, devolved or regional government in the UK.

It is exceptionally unlikely that land value taxation could overcome these problems. That tax, which makes a charge on the deemed rental value of land, whether it is in use or not, has considerable problems inherent within it, including the fact that rental value does almost invariably reflect local levels of income since rents must be paid out of them. The problems noted above are, therefore, replicated in this form of taxation and mechanisms to address these deficiencies would, therefore, still be required.

Any mechanism for creating greater local government fiscal autonomy must, therefore, be more broadly based than the apparent fiscal constraints of local taxation might imply. This necessarily means that instead of the debate on local government financing concentrating on local taxation alone, it must also consider:

* Which parts of government services should be devolved to local authority control whilst giving those local authorities some degree of flexibility in deciding on the relative priority of these matters in their local area.

* Ways in which the central government macroeconomic requirement to tax government-created money out of circulation can be reconciled with a desire that local governments have autonomy with regard to the provision of services in the area for which they are responsible. This might require that a fixed proportion of total government spending be passed to local control without a locally based capacity to raise revenue being required.

* That capital expenditure budgets, and mechanisms to borrow to fund such expenditure, be devolved to local governments. This would also require that the necessary apportionment of responsibility for servicing debt be agreed upon. However, to provide long-term stability to local government investment programmes, constraints that might otherwise be created on local authorities as a consequence of central government macroeconomic monetary policy will need to be resolved. This might necessarily require the supply of long-term credit to local governments from central government at fixed rates, with central government then assuming the responsibility

for varying interest rate risk.

* Enhanced mechanisms for the accountability of local government both within authorities themselves, and to those who elect them, as well as to central government. All of these mechanisms must be capable of comprehension by lay persons given that they are the people most likely to be elected as local politicians.

* Arrangements for the delivery of minimum service guarantees by local authorities might be necessary.

As is apparent, these are complex issues and that is why this topic could not be addressed within the scope of the Taxing Wealth Report 2024.

Inheritance and wealth taxes

As the Taxing Wealth Report 2024 has made clear, wealth taxes always look to be attractive in theory. However, as any experienced tax practitioner might confirm, the reality is that agreeing asset valuations for taxation purposes in the absence of actual market data is complicated, time-consuming, expensive and the subject of extensive negotiation with HM Revenue & Customs before agreement is reached. Any wealth tax would necessarily require vast numbers of these negotiations be entered into on a recurring basis, many of them being required only to prove that a person did not have a wealth tax liability. This would, as a consequence, be a hopelessly inefficient, and potentially unjust, basis for imposing a tax charge. That is why the Taxing Wealth Report 2024 has placed so much focus on securing better taxation of the income and gains arising from wealth instead of on taxing wealth itself. These complications would continue if a wealth tax was to become a regular and recurring tax and as such the likelihood of a successful wealth tax being introduced is extremely low, however politically attractive such a tax might look to be to some.

As is noted in the Taxing Wealth Report 2024, the only approximation to a wealth tax that the UK currently has, which is its inheritance tax, is supposedly the most unpopular tax in the UK. This is is hard to understand when only 4% of all estates of people dying in the UK are likely to be subject to it at present, but the media persists with this view.

As the Taxing Wealth Report 2024 makes clear, this tax could not only be made significantly more progressive than it is at present by re-organising the rates at which is charged, but some of the major reliefs and exemptions available within it, particularly with regard to business and agricultural property and some other forms of preferred gifts, could be significantly reformed, closing in the process many of the loopholes currently largely exploited by those with significant wealth.

That being noted, thereafter and in the necessary absence of a wealth tax, inheritance tax needs to be subject to further reforms that have not been the subject of consideration within the Taxing Wealth Report 2024 because of the likely time that it would take for such reforms to be implemented.

The first of these reforms would be to extend the time period prior to death during which an inheritance tax charge might apply. There would be an increase in tax justice if this were to be done.

A second reform would be to look through the trust arrangements that are now used by the wealthiest people in the UK to avoid inheritance tax charges. Many of these arrangements will have been in place for a considerable period of time. That only adds to the offence taken by many at the use of these arrangements since they have contributed to the massive inequalities in wealth in the UK that still exist. To achieve this goal a system of attributing the ownership of property within trusts to real people resident in the UK will be essential so that they might be taxed on the disposal of these assets. This will take time to both develop and be implemented.

Finally, a system of inheritance tax discounts might be appropriate if estates were more widely distributed rather than being concentrated in the hands of one or only a few beneficiaries at the time of a person’s death. This would have the advantage of making inheritance tax behave in a fashion akin to a gifts receipt tax when the latter is very unlikely to work in practice (even if it is, once again, an excellent idea in theory) by diversifying the ownership of wealth in the UK.

More work is required on these issues and as a result they have not been addressed in the Taxing Wealth Report 2024.

Value added tax

The Taxing Wealth Report 2024 has considered problems inherent in some of the tax reliefs, exemptions and allowances permitted within this tax, but has not addressed all the remaining biases and distortions that it can create within the UK economy, particularly when some of those allowances and exemptions are exceptionally poorly focused. Addressing these issues requires much more work than was possible within the scope of the Taxing Wealth Report 2024, particularly when it comes to integration of any proposed changes with reform of the benefits system which might well prove to be necessary if the Scandinavian approach to this issue is considered. Consideration of these issues was, as a consequence, necessarily deferred.

Integration with the benefits system

One of the highest goals for any taxation system would be the creation of a seamless transition between taxation and benefits, meaning that these two systems could be fully integrated so that a person might move without economic stress arising between being a taxpayer and the recipient of benefits dependent upon their level of income and personal circumstances.

In reality, no practical method for achieving this goal has yet been identified, nor have any of the mechanisms intended to overcome these integration problems, such as the payment of a universal basic income, offered methods of integration that do not in themselves create significant impediments to the effective operation of the overall tax system. In that particular case, the requirement that considerably higher rates of income tax than are currently commonplace in the UK or any comparable country if a genuine basic income were to be paid would be a major impediment to progress.

Because of the complexity of this process of integration, no attempt to address it has been made within the Taxing Wealth Report 2024. If this work was to be extended it would, however, be necessary to consider these issues.

End notes

***[1]* https://taxingwealth.uk/2023/09/06/wealth-is-undertaxed-by-170-billion-a-year-in-the-uk/**