The Taxing Wealth Report and tax justice

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I posted this video on YouTube this morning:

https://youtu.be/RlyFYNeGtCg?si=hPkInBPv85bSJo9H

The transcript is as follows:

Right at the very heart of the Taxing Wealth Report is the idea of tax justice.

Fairness matters when it comes to taxation. People should be treated equally when they are in equal situations, and people who are wealthy should contribute more to society than those who have less income and wealth. Those ideas are absolutely fundamental to the concepts of tax justice, and they are fundamental to the ideas within the Taxing Wealth Report.

Let me explain those in a little more detail. When we're talking about people in a similar situation in the sense that they have the same overall level of income then we are discussing horizontal tax equity when we discuss their tax affairs. It should, in my opinion, be the case that whatever the source of a person's income they should pay the same amount of tax.

In other words, if a person earns their income from working, or if they get their income from rent or dividends or interest, or if they make their income from capital gains, which are the profits that people make on the sale of assets, they should still pay the same amount of tax, whatever that source might be.

That is not what happens in the UK at present. We are a very long way, in fact, from that happening here in the UK. That's because of the allowances and reliefs and exemptions that are within the tax system mean that those who work for a living pay the most tax on their income and that those who live off capital gains, that is, the wealthy who can sell assets to realise money on which they can then live, pay the least *amount of tax.*

We saw that very vividly in 2024 when Rishi Sunak published his tax return for the year 2022/23 and his overall rate of tax was just 22% or so. If the recommendations in the Taxing Wealth Report had been in place and had been applied to his tax return, he would have paid tax at well over 50%. Now, let me explain why these inequalities arise, very briefly, and why the Taxing Wealth Report tackles them.

The inequalities are quite easy to explain. Capital gains tax is charged at roughly half the rate of income tax, and that's ridiculous. There is no reason why a person who makes money from profiteering should pay tax at half the rate of somebody who has to work for a living. That's crazy. It's wrong.

But there's another bias within the tax system which heavily favours those with wealth. And that is that income from interest and from dividends and from rents only results in the payment of income tax. But when a person works for a living, they also pay national insurance. In fact, not only do they pay national insurance, but their employer pays national insurance as well, at a much higher rate than the employee does now.

So, the consequence is that earnings from employment are much more heavily taxed than anything else. So, in the Taxing Wealth Report, I recommend that the rate of tax paid on capital gains should be the income tax rate, and I suggest that income from rents and dividends and interest and capital gains should all be subject to what is called an investment income surcharge.

That is an extra tax equivalent to national insurance at an approximate rate which combines both the employee's contribution and the employer's contribution, so that the person who gets income from those sources has to also makes a fair contribution to the overall costs of running our society, and makes a fair contribution to the way in which the government must operate if we are all to live in an appropriate fashion.

That is the way to create horizontal tax equity. And there's one other change as well. And that is, that people in the UK should all get tax allowances at the same rate. So, people who make a contribution to their pension should get tax relief at the basic rate of income tax, I suggest, whatever their overall level of income. That means that the 85 percent of the UK who only pay the basic rate of income tax should get the same rate of tax relief as a person who earns a million pounds. Pension contributions should only get tax relief at this lower rate, as should donations to charity also only get tax relief at that rate, because it's totally unfair that the wealthy are subsidized when it comes to their donations to charity or their contributions to their pension fund in a way that those on lower incomes are not. Those allowances create bias. That’s unreasonable because it destroys horizontal tax equity.

Then there is the concept of vertical tax equity. Vertical tax equity means that we should have a progressive tax system. It's quite simple. Those on low income clearly *should be taxed less than those on high income. And the economic logic is quite straightforward.*

If you pay a person on low income, an additional pound, they will value it much more than if you pay an additional pound to somebody who earns a hundred thousand a year or a million pounds a year. I think that's pretty obvious. The person on low income will actually notice the difference. The person on high income frankly just won't care whether they've got an extra pound or not.

Therefore, the person on a high income can afford to give away more of their income to pay tax and still be relatively as well off and suffer no more harm to their economic well-being than the person on low income, who should pay much less tax because the relative cost to them of tax paid is much higher given that every pound is worth a lot more to them.

Now again, this is a basic concept of fairness. But we don't have such a system in the UK at present. In fact, those who are on the lowest incomes in the UK pay the highest overall rates of tax. And right across the middle bands of income, the rate of tax is pretty much flat. There's very little difference in the overall rate of tax paid by people who are earning £25,000 a year and people are earning £60,000 a year.

But when it comes to the highest rates of income, when we take into consideration overall increases in financial wellbeing in a year, which combines their capital gains with their incomes to look at how much their overall wealth has increased - which is an entirely fair thing to do in accounting terms - then they pay much lower rates of tax than anybody else in the country as a whole.

In fact, if those on the lowest levels of income pay around 44% of their income in tax - not income tax by the way, but taxes like VAT or the BBC license fee or council tax and so on - and when we compare their situation of paying this extraordinary rate of tax of 44% to the situation of those who are on the highest levels of income, they only pay just over 20%, as we saw Rishi Sunak do. His overall rate of tax was just over 22%. Now, what that means is that we have a completely regressive tax system in the UK. In other words, the system works exactly the opposite way from that which it should if we were to deliver tax justice, and real fairness.

We have vertical inequity rather than vertical tax equity. The Taxing Wealth Report recognises that, and it tackles those issues because it says everybody should make their contribution to society in a fair way. We aren't doing that. The Taxing Wealth Report basically tries to knock off the rough edges within the tax system, which creates this unfairness and bias towards wealth, and seeks to restore a situation where the tax system is biased towards the person on ordinary levels of income.

That's most people in the UK, of course. I'm not being disparaging by saying ordinary. I just mean average. And the bias in the tax system should be in their favour, not in *favour of wealth. That's what the Taxing Wealth Report tries to achieve with the recommendations it makes. And I think as a result, it represents fairness, it represents tax justice, and it represents what a government interested in the fair treatment of people in this country should be doing.*