

What is fair when it comes to tax?

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I posted this video on YouTube this morning:

https://youtu.be/9Yp8prysml8?si=E_qppTrZoD8FefEq

This is the transcript:

Taxes should be fair. I think that's obvious. Well, it should be to anyone.

They're not in the UK at present because we know that the wealthy underpay tax compared to those on lower incomes, and that's one of the reasons why I wrote the Taxing Wealth Report, precisely because we do need to redistribute income and wealth from those who've got high levels of both to those who have very little of either.

So obviously, that's one reason why we can increase tax fairness, but we need some sort of guide as to what we mean about tax fairness. And in the Taxing Wealth Report, I use two guides. One is horizontal tax equity, and one is vertical tax equity. Now, let's just explain what they are.

Horizontal tax equity means that one pound arriving in your pocket from whatever the source should be taxed the same way, whatever that source was.

So, if you got your earnings from work, say one pound, then I am saying that the tax due on that should be the same as if you got that one pound from interest received, or rents, or capital gains, or anything else. Whatever the source of your profit, the one pound that increases your well-being - because we generally recognize that more money available to you does usually increase well-being - the amount of tax you pay should be the same.

That is the argument that horizontal tax equity makes, and that is why, for example, I argue that capital gains should be taxed at income tax rates. It's straightforward, it's

clear, it's obvious, and “£1 is £1 from wherever it comes” is a simple motto but it's absolutely true as well.

Vertical tax equity is a different form of tax justice.

Vertical tax equity says that those on low incomes who lose a pound in tax suffer much more in terms of their well-being than a person who's on a million pounds a year who pays £1 in tax.

Why? Because the person with a million a year doesn't frankly notice whether they've got one pound more or less. The marginal cost of them giving up one pound in tax is insignificant because they don't notice the difference, whereas the person on a very low income does notice the difference. So, what vertical tax equity tries to do is equalize the broad cost in terms of well-being foregone of tax paid.

The result is that the tax system must be progressive. Those on low incomes must pay a much lower proportion of their income in tax than those on high incomes because, relatively speaking, the impact on their well-beings is equal. And that is tax justice.

We haven't got that at present. We need to have it.

The Taxing Wealth Report tries to produce that outcome. It's a move towards a fairer tax system for the benefit of everyone - and I stress everyone - in the UK