Funding the Future

We don’t need a wealth tax, yet

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This morning’s video sees me back in front of the camera. The antibiotics are working.

In this video, I note that there is a lot of interest in wealth taxes right now. I understand why, but if we want to tackle the problems wealth creates, there are two better ways to do that before we ever think of having wealth taxes.

There is, of course, reference to the Taxing Wealth Report in this video.

https://www.youtube.com/watch?v=XBPJCojH4OQ

The audio file is here.

https://www.podbean.com/player-v2/?i=g9ye4-169dd83-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

This is the transcript.

The world does not need a wealth tax. At least, most definitely not yet. And I know that the idea is becoming popular.

The G20 has issued a statement, promoted by Brazil, that such a tax should be considered. But I have serious reservations. I know that this will put me out of step with many tax justice campaigners around the world, but I'm not worried about that. I don't believe we need a wealth tax at this moment for a number of very good reasons.

First of all, if the problem that we are tackling with wealth is its concentration in the hands of a few people - the world's billionaires who own companies like, well, let's be honest, X and Facebook and Google and so on - and they are the threat that we're facing because of the potential abuse that they can perpetrate as a result of their ownership of media - and this would also apply to old media as well - then the answer to that problem is not to tax that wealth out of existence. It is to better regulate media.

And if the problem is in other sectors where we have seen massive concentrations of power - and we are in areas like fashion, and in sectors like food and retailing, then again, the answer to the problem is to have proper anti-monopoly legislation.

A 2 per cent wealth tax will not prevent the abuses that are going on in any of these sectors at present. So, let's not pretend it will. This is not an answer to the problem of monopolies. The answer to the problem of monopolies and the power that they give to those who manage them is to better regulate monopolies to the point that we don't have monopolies.

So, if you're looking to answer the problem of massive concentrations of power within a capitalist economy, tax is not your answer. It can do lots of things, but that is not one of them.

If your problem is the concentration of economic power in the hands of relatively few people because of the massive wealth that they have accumulated, then, yes, tax can help.

And I'm not disputing that for a moment. I've written a whole report, the Taxing Wealth Report 2024, and there will be a link in the description of this video to explain where you can find that, which explores the many ways in which the UK could tackle wealth better. But when I talk about tackling wealth better in this sense, I talk about how to tax the incomes and gains from high levels of wealth better and how also to stop subsidising the accumulation of wealth at cost of the state by some when others get no such opportunity.

Those are real abuses that are creating real inequalities that reach way down the inequality chain from the level of the tech and other billionaires who are the target of most of the attention of the G20 at present.

That also create problems, let's be clear. The inequality around us matters as much as the inequality created by billionaires, which is very distant from most people's lives and which, as I've already said, should be tackled by regulation. But we won't address the problem of the wealth inequality that we see pervading society by taxing wealth.

The reason why is that taxing wealth is incredibly difficult. It's difficult for a number of reasons.

First of all, you've got to find it. And people who have a lot of wealth are quite good at disguising their ownership of it. Not only do they use trusts and offshore companies and other such arrangements to try to obscure who actually owns their wealth, but they're also just quite good at actually undervaluing what they have, making it less than obvious what is in their possession.

So you've actually got to have a physical inventory as well as the financial inventory of many of these people's assets, to be sure what they own. To count up the resources, the works of arts, the properties, and everything else. All of these things would have to be found, counted, and valued. And that's going to be an exceptionally time-consuming exercise.

Of course, you could say it would be up to them to disclose everything, but you can be sure that lawyers and accountants would find tricks to let them argue, “But that's not mine and this belongs to somebody else and that is only held in trust” and whatever. So, this exercise is going to be open to enormous amounts of dispute.

But even when you found their property, you've got to value it and valuing a great many things is very difficult. How much is a piece of art worth? How much is a racehorse worth? How much is a private company worth? And that one is a particularly difficult question, and I have been involved in private company valuations over a significant part of my career.

And it is a difficult question to answer. A private company is worth what somebody will pay for it. But if nobody is actually willing at a point in time to pay anything for that company, then how do we approximate what the market does?

There are rules, but they are, firstly, pretty stupid rules in the UK, if I can be candid. They are actually really hard to apply in any rational way. And secondly, again, the margins for error are enormous. There is going to be a problem. A great deal of dispute about that. And then you've got to collect the tax.

And the person who owes the tax is going to try to resist payment because they will argue about valuation and ownership for time immemorial.

And next year, you've got to repeat the exercise, and again the year after, and again the year after. Tax authorities will tie themselves up in knots if they try to introduce serious wealth taxes on seriously wealthy people.

There are better ways to collect wealth from those people is what I am arguing. What sort of wealth?

The wealth that they generate through capital gains is undertaxed almost universally around the world.

The wealth that they pay themselves through dividends is seriously undertaxed again in most countries. And that's ludicrous. It is taxed at a much lower rate in most places than is income from work. And in many countries, it's not taxed at all. That's what tax havens exist to do. And it is still too easy for the wealthy to use such places for the purposes of avoiding taxation.

So, my answer is, let's go for those issues. Let's try to equalize the taxes on capital gains with the tax rates on income. And let's go for the income derived from wealth, which is mainly dividends but also distributions from trusts and things like that.

Make sure that those are subject to tax at rates equivalent to that on work and we could create vast amounts of new tax revenue.

In the UK, it has been suggested that a 2 per cent wealth tax might raise £10bn a year in additional tax revenue a year.

On the other hand, if we were to introduce what I would call an investment income surcharge, that is a charge of 15 per cent over and above the income tax rate to represent the absence of any national insurance charge on income derived from wealth, so this charge would apply to reasonable amounts of dividends and rents and distributions from trusts and capital gains, then, you would collect something like £18 billion a year.

All of those sources of income have to already be declared to the UK tax authority, and they have to be declared to most tax authorities around the world. Changing the structure of rates would then allow tax authorities to collect this tax much more easily than having to go into the whole question of who owns what and how much is it worth year in year out and tying themselves up in knots.

For heaven's sake, we need effective functioning tax systems as well as ones that look ideologically sound. And when the motive for wealth taxation appears to be to regulate the excesses of those who are billionaires, then we have to look at another source of action to tackle them. And as I say, that is regulation on monopolies.

We could get this right. We could have proper taxation. And we don't, as yet at least, need a wealth tax to do that.

I admire the motives of those who want to tackle inequality. They are right. They are justified. But, to do so via a wealth tax at this moment when there are better options available that can solve the problem more quickly and more effectively at less cost of disruption to society, that is a mistake.

Please, let's get the taxation of wealth right. Let's do it, but let's do it effectively.

There is a slightly amusing follow on to yesterday’s audio only video. My visual absence appeared to be popular; the video did better than average, but right now we’re pleased how all of them are going.