

Funding the Future

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Many people on the UK's left want a wealth tax. The trouble is that one of those would take years to deliver. Taxing income and gains from wealth more makes much more sense.

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This is the audio version:

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This is the transcript:

Do we need a wealth tax? I asked the question because Rachel Reeves will undoubtedly be talking about the constraints on UK government spending during the course of her spending review on Wednesday this week. And so the question will come up: do we need a wealth tax? And my answer is no, we don't, but we do need to tax wealth and the income derived from it a great deal more.

Now, there is no contradiction in what I've just said.

A wealth tax requires somebody to tot up everything that they own, and if they go above a certain monetary limit, then the state will say to them, "We want 2% of your estate worth over 2 million pounds this year", or whatever the number might be. And there are various proposals on the table.

But if we instead taxed income and gains from wealth more, which is what I propose, all we simply do is change the tax rates and some of the allowances and reliefs within the tax system that already exist so that those with wealth simply pay more on the income and gains that they already report to HM Revenue & Customs.

Now, one of those arrangements is really very complicated to put in place and will require politicians to expend a considerable political capital if they are going to achieve their goal of collecting any more money from people with wealth in the UK. The other option is pretty straightforward and can be put in place incrementally.

The complicated option is a wealth tax.

It would be immensely difficult to design a wealth tax. That's because there would have to be rules about what wealth is included, how it's valued, how it's declared, and how values will be established against market principles that is not easy and straightforward. And the rules of tax as they currently exist may not be adaptable for this purpose. In other words, not only will it take time to put into place, but there will be a long learning curve before it can be got right.

The one that is easy to put into place is to change the rates and allowances and reliefs on wealth and gains already reported to HM Revenue & Customs.

I'm a pragmatist. I want to tax wealth in the UK more. The reason why I want to tax wealth in the UK more is twofold.

Firstly, I want to reduce inequality. Plain straightforwardly, I want to tax people who have got an excess of income and wealth over and above any reasonable need that a person has to be able to meet their requirements in life.

I want those people to pay more tax because that will rebalance our economy and reduce the stress within it, whilst passing income to those who do not have enough income, who therefore will promote growth by spending everything they receive. So a straightforward policy of redistribution not only reduces social stress, but also boosts economic growth by putting money in the hands of the people who will spend it rather than in the hands of the wealthy who will save it, and that has to make economic sense at this point of time because there is not enough economic activity in the UK economy to ensure that everybody can be employed at a living wage and that matters.

The second reason why I'm keen on increasing tax on income and gains derived from wealth is that I'm aware that the UK government needs to spend more money. And it does. There are lots of things that it needs to spend money on, according to the Labour Party. Defence is high on that list of priorities, but we also know that the NHS is still underfunded and needs to have settlements in excessive inflation every year just to keep up with medical advances.

We know that education is underfunded.

We know that investment in transport and housing is underfunded. I could keep going.

The point is the government does need to spend more because there is a need that is not being met in our society, which only the government can deliver. So we need to spend more, and if we have the government spend more, the government has to recover more by way of tax from the economy. Otherwise, it has created too much money when compared to the level of potential demand that exists within the economy. And, without recovering that money by way of tax, we might otherwise end up in an inflationary environment.

I don't want us to end up in an inflationary environment.

I don't think that's a benefit to anybody. A little bit of inflation is fine. Very much beyond a little bit. We know that can destabilise things, and we know it is deeply unpopular with electorates, and that is because people feel insecure and nobody likes feeling insecure. So we don't want to achieve that outcome.

But that means if the government is to spend more, and it should, it must tax more simply because it must take money out of circulation.

Now, there is an argument that taxing the wealthy does not take money out of circulation. But I would wish to disagree with that. If we selectively balance the money taken out of circulation from the wealthy with the need to stimulate the economy by providing money to those who have the lowest level of income, we also encourage more economic activity by those on the lowest level of income because they are encouraged to go back to work in the communities where they work in particular, and the consequence is that we can rebalance by bringing these factors together in a way that I think would deliver this non-inflationary environment of reallocating money and at the same time boosting local economic activities so that we would actually bring more resources into use, and that is not an inflationary consequence of doing this. Therefore, the balance will, I think, work. Although, and I would stress it, the government would, of course, need to keep an eye on inflation.

But my point, and let's go right back to the beginning, is that a wealth tax by itself could not do this. At a minimum, I think it would take five years to get a wealth tax into operation. What I'm suggesting are some very straightforward changes, which could be put through in any budget by a government.

Let me offer you some examples.

Restricting pension tax relief to the basic rate of income tax so that those who currently get tax relief at higher rates would, if it was restricted, deliver £14.5 billion of extra tax revenue to the government each year. That is more than I have seen some estimates

for wealth taxes raising.

If we had an investment income surcharge, which means that we would charge 15% extra tax on investment income, that's rents and dividends and interest, above, say £5,000 a year, then that could raise up to £18 billion a year, and will be the equivalent of a national insurance charge on investment income, which would only create fairness between those who have to live on income from their work and those who live on income from their savings.

If we charge national insurance on all earnings right across the income range, that could raise over £10 billion a year.

If we aligned the capital gains tax rate with the income tax rate, my estimate is that that could also raise over £10 billion a year.

And if we charged VAT on financial services, and now we are outside the EU, there is no reason why we shouldn't, and the only consumers of financial services are wealthy people, then we might raise £8 billion a year.

Add all those together, and we come to something like £60 billion.

Now that number is give or take a bit because all these things are estimates and I'm not giving you a cast iron guarantee that they would raise precisely the sums I suggest. But the point I'm making is that if we want to raise serious sums of money to cancel the consequence of the government spending on the things that we need, which is what I suggest a government in the UK should now be doing, then we do need that sort of level of additional tax revenue.

We can't get it in the short term from a wealth tax, so we can't therefore do the spending that is required, because otherwise we might get an inflationary consequence. And so to prevent that inflationary consequence, let's forget the idea of doing a wealth tax and let's instead put in place the measures that I've suggested because they're available, if not tomorrow, then by next year, when all of these changes could be put into effect.

The government would have the revenue it would need, and it could spend on what we want.

The opportunity to radically transform the fortunes of our society by providing it with what we need, including the defence that Labour wants to spend money on, is there if only we have the courage to tax the rich more, and it's not hard to do.