

Wealth series 5: What are the wealthy worth?

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Taxing the wealthy sounds easy. But what happens when we don't actually know what they own or what it's worth? In this fifth video in my series on wealth, I explore the complexity and ambiguity of wealth valuation and explain why taxing the income and gains from wealth might be the only serious route to taxing the rich more fairly.

<https://www.youtube.com/watch?v=Y6dzBpfli8&si=PSHQ2EVxQmc6IJCp>

This is the audio version:

https://www.podbean.com/player-v2/?i=9wfx5-190da6b-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

This is the fifth in our series on wealth and the wealthy. So far, we've discussed what wealth is, who owns it, how tax has boosted wealth, and how exploitation created most of the rest of the wealth that the wealthy now own.

So now it's time to look at something else, and that's to go back and look at how we value wealth because this really matters.

We need to know how we value wealth if we are to ever tax the wealthy more. So we need to know what it is that we can tax, and if we're going to do that, we need to know

what wealth is, where it is, how it is owned, and how much it is worth.

And the question that we then have to ask is if we can't achieve any of those goals, and I will in the end of this video, suggest that we may not be able to achieve all of them, then what can we do instead of taxing wealth?

Now, as I said in video two of this series, wealth is broadly made up of four things.

Our properties, if we are lucky enough to own one.

Our pension funds, if we are lucky enough to own one.

Our investments, if we're lucky enough to have any.

And our personal possessions: everything from the clapped-out car sitting outside my house at this moment, to the carpet and chair I'm sitting on.

Those are the things that we own, and for most people, these things are pretty easy to value.

Their wealth is dominated by the bank balance that they have, the value of their home (if they've got one), the balance in their pension account, which they can ask the pension company about, and that's about it, plus, the odds and ends of wealth that are represented by things like that car, but which frankly are worth not a lot.

For the wealthy, the story's very different. They're going to own things like yachts, large quantities of land, maybe private jets, but most particularly, they're going to have complicated investments and most especially investments in their own companies. And these things give rise to particular problems when it comes to valuation.

I want to make a very important point, and we touched on this in video one in the series, but it needs to be reiterated. The value of these assets that are owned by the wealthy are deeply subjective.

Now we actually know that all asset values are sometimes subjective. For example. I can guess what my house is worth, and I happen to own a house, and I'm lucky, but I can't be sure if I put it on the market now, I don't know precisely what I'll get, but I can have a reasonable estimate.

But if I own a company and I want to sell it, frankly, I'm asking how long is a piece of string when it comes to valuation, because we really don't know how much companies are worth.

The price of a company will change constantly, and it will depend upon the attitude of the buyer, and there isn't even a guarantee that there is a buyer for a private company or for some other assets of the wealthy.

For example, if you own rare works of art, when will somebody come along who's got £15 million or so spare pounds to buy the painting that you happen to possess? It might be years.

And so there's a real problem in valuing what the wealthy have. because one of the essential difficulties is that supposed market value isn't anything like what you might be able to actually flog an asset for now.

And that, again, creates a real problem when it comes to talking about wealth, and what we can tax, because just because we can claim that there's a market for an asset one day doesn't mean to say that there is at this moment, and that we can therefore raise the money to pay tax on anything.

What this essentially means is that the wealthy live in a world of profound uncertainty as to how much they're really worth, and I've got to tell you, they hate that.

They hate it because what it means is that the figures for wealth on which they're relying are profoundly unreliable, and that's one reason why they don't actually like talking about them very much. They'd rather flaunt their wealth. They'd rather use status symbols than actually mention how much they're worth.

The Sunday Times Rich List, and other things like that, might come up with figures for wealth for them, but they won't, because they know that all these things are frankly illusory, and this is most especially the case with regard to ownership of land, and private companies, because in these cases when we're talking about significant values, the valuation is based upon the amount of income that the asset in question can generate in the future, and the future is inherently unknowable.

Let me explain that.

The point is that if you buy a company, very rarely do you buy it because of what it has done, or the assets that it has got on its balance sheet. Most companies sell for a price that is much higher than their apparent worth according to the balance sheet in their accounts, and that's because a vibrant, growing company is sold, not on the basis of what has happened, but the income stream that it is expected that the company will generate in the future.

And the same, by the way, pretty much applies to the sale of land. You don't look at what has happened with regard to rents, you look at what you think might happen with regard to rents, and in particular, how they might change. And there are sometimes very good reasons why rents will change. For example, the development of new housing estates will change the value of alternative properties nearby, particularly if they are investment properties, or you could have a new railway line, which could massively increase the value of a property, even though nothing has been done to it.

And the point is, all these estimates about what might be made in the future come down to one thing, and that's essentially called guesswork.

We don't know how much a company will make in the future. We can prepare complicated spreadsheets. We can make the most enormous range of assumptions. We can build models. We can simulate things, and I've done all those things in my time, let me assure you. I know how to do that. But at the end of the day, if we're honest, we are just guessing.

And the fact is, then, that there's another problem, and that is if this money is earned in the future, what is that money that you will earn in 10 years' time worth now, because it obviously isn't going to be worth the same now as it might be then.

If you get the promise of getting £1,000 in 10 years' time and you get the promise of £1,000 now, I don't know anybody who wouldn't take £1,000 now, because £1,000 now is clearly worth more than £1,000 in 10 years time because, well, you'll have lost interest on £1,000 over the next 10 years if you wait, so, there is obviously a factor to take into account here, which economists and accountants call the discount rate.

How much do we discount money in the future to represent its worth now? And again, we don't know because we don't know what will happen to interest rates between now and whenever the money might be received.

So, everywhere we are taxing guesses if we want to value wealth for the purpose of a wealth tax, and should we be valuing guesswork when it comes to taxation?

Does that make sense?

Is it even fair?

And there's one other final point to mention here, because some people do actually say this to me. They say to me, "But a company can be valued because it's got a price on the stock market" even though it's owned by somebody who owns 60 or 70% of the company, and that's not uncommon by the way, but there's still a stock market quotation for an individual share that somebody might want to buy or sell on the stock market out of the remaining 30 or 40% or whatever it is that are available for sale.

But the fact is that the price of the individual share is nothing like the valuation basis for the company as a whole, or the 60 or 70% that the person owns in the example I'm using.

That's because if somebody owns 60 to 70% of a company, they can tell the company what to do. They can direct its operations. They can decide what activities it will undertake. They can decide whether it enters markets or withdraws from markets, and everything else. They have power, and the individual shareholder who owns an individual share in the company has none of that power.

And so the price of the individual shareholder's share is vastly lower than that of the share that is owned by the owner of 60% to 70% of the company, because their shares give them power, which other shares don't.

And again, this ratio between the individual share, which is open to anyone to buy, and the majority share ownership, that is that of the true owner - the mega-wealthy person who controls the company - is a matter of conjecture. We don't know precisely what that relationship is, and I point to this again because it's another uncertainty.

And this, again, is why the wealthy stay quiet about their wealth. They do so because they don't know what it is, and they may not be as rich as they would like us to think, as a consequence, but they also suffer a significant fear of being found out to not be as wealthy as they might be, and they suffer a fear of being valued. And a wealth tax would value them, and they're not keen on that. Let me be clear about that, and it's one of the reasons why they're quite frightened of wealth taxes.

But what are the consequences of this uncertainty? Can we tax wealth when we don't really know what wealth is?

We might be able to work out where wealth is because that's easy in the case of property.

But let's take the ownership of a company. If the company is owned through a trust, and the trust is located in the Channel Islands, and it's registered after that through a company in the Isle of Man, but then that company in the Isle of Man owns a company back in the UK, where the owner happens to be, where is the wealth and how do we prove those relationships?

And if the owner controls the company, but claims that the trusts have been set up for the benefit of other people, but they don't want to disclose who those people are, and the trustee doesn't require them to, then how do we prove who owns what?

All of this creates massive uncertainties with regard to the taxation of wealth, and that to me is one of the real reasons why the calls for wealth taxes don't work.

The problem is we may be trying to tax a number that we don't really know about, and taxing an unknown is not a good idea.

And that makes the stocks of wealth, the nature of which I explained back in video one, a hopeless basis for taxation.

So instead, let's be clear. If we can't tax the stock of wealth, we can tax the income from wealth, we can tax the gains from wealth, and we can tax the passing of wealth when it happens, because all of those things have to be recorded, and we have to know where they take place and how they take place, and who takes part in them. And that means we can therefore identify a proper tax base in those situations, and we can

therefore ensure that we have an established tax base for ensuring that we hold the wealthy to account for their wealth and require them to pay tax on it, which is one of my goals when I'm making this series.

Now, I'm not saying any of this process that we're talking about is easy, but it is much easier to tax what comes from wealth than it is to tax wealth itself.

So let's be clear about this. We can't know precisely what the wealth of the wealthy is. Anybody who says otherwise is either not aware of the problems of valuing wealth or is talking nonsense. Those are the only two options that are available. They cannot be telling you the truth, and I'm not blaming the wealthy for this. As I've explained, there are so many uncertainties about the valuation of wealth that they can't be sure what they're worth either.

So instead, if we're going to tax the wealthy more, we have to use the data that we can establish, and that is what value flows from wealth rather than what wealth is worth.

Then we can have a serious policy for taxing the wealthy, but until we agree that that is the basis on which we're going forward, we can't talk about taxing the wealthy more. And as a consequence, all the issues that I've discussed in this video are really important if we want to increase tax on the wealthy, which, as I hope you will agree with me, is a matter of some importance.

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [**here**](#).

One word of warning, though: please do make sure you have the correct MP. ChatGPT can get it wrong.