

## Getting the taxation of wealth right

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There is a lot of noise about Labour's tax plans right now.

There is also a lot of noise about wealth taxes. However, [as the Guardian reports](#) this morning, in a headline:

### **Treasury targeting inheritance tax reforms to help plug UK deficit**

Exclusive: Chancellor also looking at tweaks to capital gains tax to try to bridge £40bn-plus spending gap before budget

The unsurprising reality is that Labour is not going to be announcing a wealth tax this autumn. I very much doubt that it will be doing so at any time before 2029, but it will, time and time again, be visiting topics that I mentioned within the [Taxing Wealth Report](#).

There is a good reason for that. We do need to tax those with wealth considerably more because the rate at which they pay tax is very low, overall. I explained that in this post, which [was part of the Taxing Wealth Report series](#). The [detailed workings](#) that support this are also available.

As I noted then, based on a review of taxes paid, UK [national income](#) and changes in UK wealth from 2011 to 2020:

\* The UK has a [tax system](#) on income that is regressive at the lowest levels of income, broadly flat over the middle range of UK incomes, and is only slightly progressive at the upper end, without, however, replicating the tax rates paid by those on the lowest income.

\* Has a very generous system of taxation on wealth, which means that whereas income was on average taxed at 32.9 per cent over this period, increases in wealth

were only taxed at 4.1 per cent.

- \* The combined average tax rate on income and increases in wealth over this period amounted to 25.6 per cent per annum.
- \* Because of the way in which wealth is distributed in the UK, with most being owned by the top ten per cent of the population, this differential in tax rates means that the UK actually has a deeply regressive tax system.
- \* Those with the lowest income in the UK were likely to have a combined tax rate on income and increases in wealth of approximately 44 per cent per annum during this period, whilst those in the highest decile of earners in the UK were likely to pay no more than 21.5 per cent per annum on their combined income and increase in wealth.
- \* If the tax rates on income and increases in wealth were equalised, then additional tax revenue of £170 billion a year might be raised in the UK as a result.

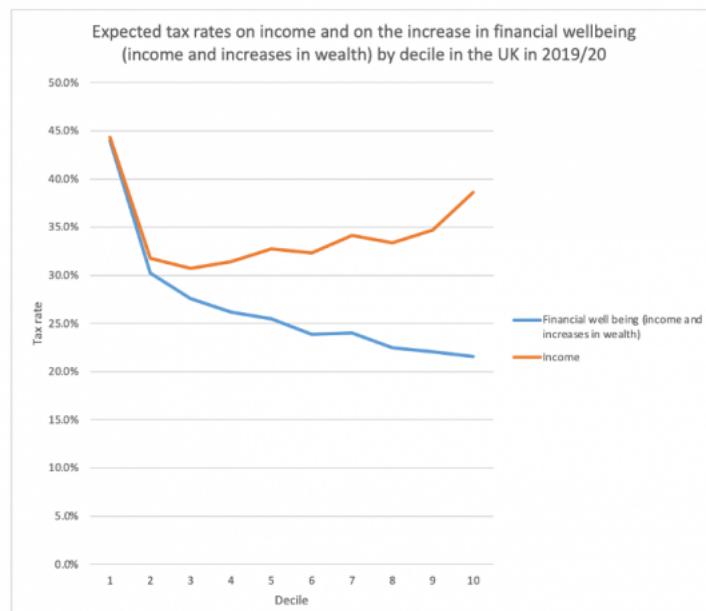
What this suggests is that:

- \* There is significant additional capacity to tax in the UK, although only from those with the most income and wealth.
- \* A strong case for reducing the tax paid by those on the lowest incomes can be made.
- \* On balance, so long as additional sources of tax revenue are charged only (or almost entirely) on those with the highest income in the UK, then there is no reason for any UK government or political party seeking power to suggest that there is no additional capacity to tax in the UK: that capacity very clearly exists.

The Taxing Wealth Report 2024 will explore about thirty ways in which this additional revenue might be raised in ways consistent with these findings.

## **The unfair UK tax system**

The following chart suggests the true scale of the regressivity of the UK's tax system:



Those in the lowest decile of income earners in the UK pay tax at around 44% on their income and gains in financial wellbeing, whilst those in the top decile pay at 21.5%, less than half that rate. That is why there is the capacity to raise more tax from wealth in the UK.

The detailed working note, linked above, shows how these calculations and the chart were prepared.

I am not for a minute suggesting that all the problems associated with wealth and equality in the UK can be solved if Rachael Reeves simply cherry picks some of the topics referred to in the Taxing Wealth Report.

In fact, I do not think all those problems could be solved if all the recommendations made in that report were adopted because not all the problems are capable of solution by tax. Some are too deeply embedded in our economy for that to be possible: systemic economic change is required to achieve that goal, which is where my video series on wealth is going next.

But what I do know is that if the problems of inequality are seen right across the income and wealth deciles of the UK, then a wealth tax by itself cannot address the issues of concern, and of that I am absolutely sure. In fact, the idea that a wealth tax can address these issues is based almost entirely on believing that tax works in the way that the household analogy describes, and that is a myth, **as I explain in this morning's video. It is vital that we get this right, and we cannot do so based upon inadequate explanations and policy that does not tackle the real issues.**