Funding the Future

Who should pay for social care?

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Andy Burnham says nobody should have to sell their home to pay for social care. At first hearing, that sounds compassionate. But is it really fair?

In this video, I argue that his proposal asks the wrong question. The issue is not simply whether people should sell their homes. The real issue is who should contribute towards the cost of social care, and whether our tax system already gives far too much protection to housing wealth.

If homeowners are exempt from contributing, the cost does not disappear. It falls instead on the state, resulting in additional taxes to recoup the money created. Many of these taxes will be paid by younger people who are already paying high rates of National Insurance, VAT, income tax, and student loan repayments while struggling to buy homes of their own.

I argue that this risks widening both wealth inequality and generational inequality. Rather than protecting inherited housing wealth, we should be asking how those with the greatest assets can make a fair contribution towards funding a social care system that benefits everyone.

I also discuss alternative approaches, including reform of inheritance tax, changes to capital gains tax on housing, and an investment income surcharge that could raise enough revenue to achieve all our social care goals without increasing inequality.

Should the tax system protect inherited housing wealth, or should it be redesigned to create a fairer society? That’s the debate this video explores.

https://www.youtube.com/watch?v=_bEyVo6-alM?si=ZSDwBE2MaT-uoglo

This is the audio version:

https://www.podbean.com/player-v2/?i=wvcna-1b2579b-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

The Debate Ammunition for this video is available here.

This is the transcript:

Andy Burnham is saying that no one should have to sell their home to pay for their social care. That is one of the basic propositions that he has put forward in the debate that we are inevitably going to have about this issue between now and 2029, by which time he says he is going to have solved the problem of how we provide continuing social care in our communities.

His policy sounds compassionate. It will appeal to the readers of the Daily Mail, the Daily Telegraph, and The Daily Express, all of whom are passionate about the ability of people to retain their own homes, even though they no longer live in them, and have no further use for them because they're living in a social care home.

But this debate is really about tax, and that's really important because there are a lot of issues to unpack here. Most of them are about social justice, and Andy Burnham isn't talking about those, and I want to, and that is what this video is about.

Because let's face reality, we haven't solved the problem of social care as yet. I've made a video on how we might do so. There is a link down below or up on the screen right now - I'm not sure where Thomas will put it - but the fact is social care still has to be funded now, and that's a reality. And if homeowners are not going to pay, and that's what Andy Burnham says, someone else is going to have to.

Now you might say, of course, that the government could, and it can of course, it can create the money to do this, but Andy Burnham is saying the question is, what taxes are going to be charged as a consequence of the government making that expenditure. And in that context it's right for us to make the link between the two as well, even though it feels slightly uncomfortable in the context of modern monetary theory.

So let's talk about what Andy Burnham has said. In essence, what he has said is that he is going to protect the wealth of those who have it, and he is not going to ask those with wealth to make a contribution towards the cost of their social care. In other words, he's going to say, you may keep your house even though you have no further use for it because you are now living in a care home, which is costing a lot of money, but you can keep your financial assets because your children have a right to inherit what they think is rightfully theirs.

He’s therefore saying that public money must replace a private contribution towards the cost of social care. Let’s be clear. That is what he has said. And he said that as a consequence, he thinks some assets are beyond the reach of taxation, and people’s homes are.

This extends the privilege that we already grant to private homes. We make them capital gains tax-free both during lifetime and on death. We provide generous allowances when there’s a family home when it comes to inheritance tax. The vast majority of families in the UK never see a tax charge on their family home. And the consequence of that is very clear. Every economist knows that this is one of the major reasons why house prices have been overinflated, because there is no tax on the increase in their value. And as a consequence, too much money has been spent on buying private homes, and that has pushed up prices and created intergenerational inequality. Older people own homes; younger people are struggling to get the chance to do so. There is a massive level of inequality on this issue, and what we’ve just heard Andy Burnham say is that he is going to maintain that inequality.

If we do not require older people to sell their homes to pay for their social care we are providing tax exemption for houses owned by older people so that they can continue to own that asset and pass it onto their children tax free, as many of them will do, and that is apparently okay, whilst other people in society will be asked to pay, and those other people who might be asked to pay are those who are struggling to buy homes when the fortunate, those who are old and no longer need their home, and the children of those who are old who are going to leave those properties to them, are getting assets totally tax free.

There is then, in what Andy Burnham has said, a major wealth transfer. He’s basically reinforcing inequality and intergenerational inequality in the UK in a way that is quite clear, quite unambiguous and quite unfair.

And at the same time, what he’s saying is that younger taxpayers must actually subsidise older taxpayers. He’s going to shift the burden from capital, which is where it exists now because people are required to sell their properties to pay for their care, onto the general tax burden and that general tax burden is paid as much by younger people as it is by older people. In fact, proportionately it is paid more by younger people than it is by older people, and he thinks that is fair.

Why do younger people pay more tax? Well, they already spend almost everything they earn. So proportionately, they pay more VAT than most older people do.

They also pay national insurance on their earnings, and older people do not pay national insurance on their pensions, and they do not pay national insurance on their investment income. And many younger people also have student debt repayments to manage as well. All of those things mean that younger people pay higher taxes than older people already.

But Andy Burnham seems to want to shift this burden onto them to pay for the care that older people need, but not in a fair way because the benefit of charging those younger people universally to tax will be to privilege a few already wealthy, older people and their offspring.

Does this in any way sound fair? My answer is no. Is this in any way representative of tax justice? My answer is no. All we are seeing here are two things: an increasing generational divide and an increasing wealth divide. The haves who have been lucky enough to own houses are getting an advantage. Those who do not have houses and are young and want to buy a property are being disadvantaged.

That, in my opinion, is deeply unfair, but that is what Andy Burnham is saying, and that is not what the Labour Party should be doing. Every asset in this country is available for tax, in my opinion. We have to decide how to do this fairly, though.

And in that case, what should we be doing? My argument is that we should be funding social care collectively. That does appear to be fair. The current system does create a sense of injustice amongst those who do face the prospect of having to sell a house to pay for social care. But we should be expecting those with wealth to make a fair contribution. And nothing that Andy Burnham is talking about mentions that fact.

So we are talking, therefore, about the need for a wealth tax of some form to deal with this problem. Now there are various options available to us. And the fact that I'm talking about taxing wealth more to pay for social care should not be a surprise to anyone. These ideas have been floated before.

But let's just look at some of those options. One option is to reduce the inheritance tax relief now available on houses inside estates. Most estates can now give away assets worth a million pounds when there's a property involved, and that allowance could be reduced. We could stop tax policy increasing inequality, which is what inheritance tax does now.

And we could change the rules on capital gains with regard to homes as well. I have long suggested that I think there should be a capital gains charge on the increase in value of homes arising at the time of death, but then take the properties out of inheritance tax altogether. And this would mean there was a one-off lifetime charge at the time when the last spouse or partner who used a property finally disposed of it.

And this would first of all force properties back into the market, because that would be good and increase supply, and we think that would help bring prices down.

, Secondly, it would mean that the unearned gains from owning property, which most people of my age have got, would be brought at a fair time when people are dead, back into the charge to tax. Again, this could provide the funding for social care, and it's an available option and one that Andy Burnham should look at because it would apply to every homeowner. And that would be fair when the current system isn't.

But there's a reform that might be fairer still. We should be looking at breaking down some of the fundamental inequalities which exist inside our tax system. And the biggest of those is that work is taxed much more heavily than is income from wealth and income in retirement. We should be levelling the playing field by addressing the problem that national insurance creates on income from work and the level of tax that is paid by those who do have to work to earn a living. Unearned income should face an equivalent charge. Now, I'm not talking about pensions here, although I see no reason why an excess charge should not be applied to a pension of above median wage in the UK. That might be fair.

But what is definitely unfair is that interest and rents and payments from dividends and things like that should have lower tax rates than do earnings from work. That is wrong. So what I'm saying is if we want to fund social care, the answer is quite simple. We impose an investment income surcharge on income from rents, from dividends, from interest, from trusts, and maybe even capital gains because they are, after all, only income. And this surcharge would be on income of above about £5,000 from these sources in a year - and not many people do have investment income of more than £5,000 a year when we take pensions out of consideration. But doing so, this could raise around £18 billion a year, in my estimate; more than enough to solve the problems of social care.

And this would level the playing field between the wealthy and those who do not have wealth and have to work for a living. And it would also level the playing field between the elderly who tend to have unearned income and the young who don't tend to.

This would be a fair tax to apply if we wanted to have a fair method of recovering the money that the government needs to spend on social care. This would work.

We could fund social care without increasing inequality as a consequence.

We could tax wealth more fairly as a result, and we would have better social care, and that would relieve stress in our society.

There are better options than forcing people to sell their houses to pay for social care. There are better options than just landing extra tax charges on existing taxpayers, particularly those who make their living from work than Andy Burnham might be considering this is the fair way to go forward. I suggest this is the tax that should be put in place if we need to increase our spending on social care and recover that cost from our society via taxation.

That’s what I think. What do you think? There’s a poll down below. Let us have your comments. This is a contentious subject. I know that. Like this video, if that’s what you do. Share it. And if you’d like to buy Tom and me coffee, there’s a link for that down below.

Poll

[poll id="476"]