Renewed calls for a wealth tax

Synopsis: Proposals for a wealth tax, which have re-emerged.

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With the Trades Union Congress (TUC) conference due to start in Brighton on 8 September, details have appeared of the motions being brought by member unions. Over the weekend, some parts of the media highlighted fresh calls for a wealth tax from Unite, the second largest trade union, and the RMT (the National Union of Rail, Maritime and Transport Workers).

Calls for a wealth tax at TUC conferences are not uncommon – last year, the TUC general secretary, Paul Nowak, called for 'a national conversation on taxing wealth and windfalls' in an interview with the *Financial Times*. Similar ideas often appear from the fringes of the Labour Party and, post-election, may come more to the fore.

The Unite motion calls for 'a wealth tax on the richest one per cent to raise £25bn per year'. The Guardian reports the structure behind this as being a 1% annual levy on assets above £4m, excluding mortgaged property. The RMT motion is less precise, demanding 'reforms to taxation, introduction of wealth taxes, and a redistribution of wealth'.

The last time proposals for a wealth tax gained much traction was when the independent Wealth Tax Commission (WTC) published a detailed report in December 2020. The WTC's proposals were promoted as a way to meet the cost of the pandemic and proposed a one off 5% tax (payable at 1% a year for five years) on net wealth above £500,000 (with no exceptions). This was projected to raise £260bn over its lifetime and to be paid by 16% of UK adults. Rishi Sunak, then the Chancellor, was against the idea and, instead, went down what proved to be the lucrative (and arguably simpler) route of freezing tax allowances and bands and allowing fiscal drag to do its dirty work.

Unite says their wealth tax would raise £25bn a year, which looks high when compared with some WTC calculations which, in 2020, suggested that an annual 1% tax with a £5m threshold would yield around £10bn-£11bn a year, depending upon the level of avoidance. For comparison a 1p increase in all rates of income tax would produce about £9.7bn a year by 2026/27, according to the HMRC ready reckoner. However, in theory, the Chancellor is prevented from such a straightforward action by her party's manifesto. In practice, all her talk of tough decisions and Kier Starmer's recent comment that 'things will get worse' before they improve could be hinting at some watering down of the manifesto's tax rate pledges.

A wealth tax remains a difficult tax to create from scratch for a variety of reasons though...

- HMRC do not have the data on personal wealth that they do on income.

- The WTC estimated that the annual cost to HMRC of administering a wealth tax would be £1.2bn a year, although costs would obviously fall if the threshold were higher. In terms of 'bang-for-buck' there are better options that do not require the creation of a new tax.

- In recent years, HMRC have struggled with major projects (Making Tax Digital continues to provide examples).

- As the WTC work showed, to raise a meaningful amount of tax either implies high rates for the very wealthy or lower rates hitting a much broader tax base with a threshold much lower than most people would envisage.

- As some countries have found – most recently Norway – the behavioural effects of a wealth tax can significantly hit revenue if those most affected decide to emigrate.

- Administering a wealth tax involves valuation of assets, the largest of which (e.g. shareholdings in private companies) require detailed work to arrive at a number.

- Liquidity to pay the tax is also a material issue. The latest HMRC estate statistics show that, for estates between £1m-£2m, 50% of gross assets were in buildings or land. Above £2m, the proportion was 37%. If the tax cannot be paid out of income or readily realisable assets, then the question of deferral and collection at death arises. A similar issue arises if pension assets are brought into the calculation of total wealth.

- The mechanics of introducing a wealth tax mean that it would probably be several years before it started to raise revenue, although anti-forestalling measures would be needed to be introduced at the time of its first announcement. These could possibly extend, as anticipated in the WTC deliberations, to emigration to escape the clutches of a wealth tax.

- Perhaps most tellingly, on the face of it, the consequences of a wealth tax do not sit comfortably with a Government that is relying on economic growth to provide funding for improved public services.

- Polling for a wealth tax generally shows the idea to be popular – as is any tax that does not affect the majority of those polled. In January 2023, YouGov found that 73% would support a wealth tax of 2% on wealth over £5 million and 78% a tax of 1% on wealth over £10 million. However, the same polling showed only 53% in favour of the WTC structure if the question is asked in a different way –'What do you think is fairer: taxing people on their wealth or their income' – then 59% favour income and 27% say wealth.

Comment

Wealth tax looks set to remain on the sidelines, despite the latest rumblings. More likely are higher taxes on capital in the form of capital gains tax (CGT) and inheritance tax (IHT), as has been widely forecast. An indirect wealth tax on residential property, through a reform of council tax, is a possibility, but, again, that would require considerable work (and cost) given the hopelessly outdated valuations in England.

Separately, it is impossible to ignore the potential inflationary consequences of one of Unite's proposals for spending the money raised by a wealth tax – to 'give public sector workers a 10 per cent pay rises'. You do not have to think too hard about the reaction of the private sector (or, for that matter, much of the general public) to this outcome.

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