Should we be taxing wealth?

Tax Justice Network Conference 2019

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Top 1% net personal wealth share

Source: World Inequality database
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Difference between income and wealth taxes

Taxes on capital incomes (returns to wealth) – dividends, capital gains

Taxes on stocks of wealth

Taxes on transfers of wealth (inter-vivos and/or inheritances)
Difference between income and wealth taxes

Taxes on capital incomes (returns to wealth) – dividends, capital gains

- Almost always taxed more lightly than labour income
- Important to acknowledge that not all returns to capital are the same
  - Imagine: earn £100 (post-income tax), save & get ...
  - £2 interest – don’t tax ‘normal return’ (equates to taxing labour again)
  - £50 interest – do tax ‘excess return’ (equates to taxing returns to capital)
  - Tax capital returns like labour returns but with careful design of tax base

Taxes on stocks of wealth

- Unappealing - discourages savings but not well targeted at taxing excess returns
  - Wealth tax at 10% on £100 – tax not increasing with excess returns
- Wealth varies significantly over the lifecycle
Difference between income and wealth taxes

Taxes on capital incomes (returns to wealth) – dividends, capital gains
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• Important to acknowledge that not all returns to capital are the same
  – Tax capital returns like labour returns but with careful design of tax base

Taxes on stocks of wealth
• Unappealing - discourages savings & not well targeted at taxing excess returns
• Wealth varies significantly over the lifecycle

Taxes on transfers of wealth (inter-vivos and/or inheritances)
• UK IHT raises relatively small amount from small number of estates
  – ~£5bn, <1% total taxes; paid by ~4% of estates
• Flawed and deeply unpopular
  – views depend on whether seen as a tax on bequests or incomes
Inheritance tax viewed as most unfair

Proportion of people saying tax is unfair, YouGov (2015)
Wealth taxes (on stocks) in practice

Hard to get a comprehensive measure of wealth

• Tax base should be as comprehensive as possible to: limit avoidance & distortions; ensure fairness

• Difficult/impractical to value many forms of wealth, including durable goods, pension rights, ‘human capital’
Wealth is high and growing

Total net wealth of UK households: £13 trillion

Where is UK household wealth?

- Property wealth (36%)
- Private pension wealth (42%)
- Financial wealth (13%)
- Physical wealth (10%)

Source: Wealth and Assets Survey, Office for National Statistics
Wealth taxes (on stocks) in practice

What & who would we actually be taxing?
• Most UK wealth is housing and pensions - room to improve how we tax these assets
• Can make different choices about the design of a wealth tax
  – Which assets to include? (exemptions create distortions & change outcomes)
  – When tax kicks in? Higher threshold to target those with most wealth (& may reduce lobbying)
• No country raises very much (~0.2% of GDP in Spain & France; ~1% in Switzerland)

Targeting the very rich
• The very rich can avoid/evade when not all wealth included & wealth hard to observe
  – Limited evasion in Sweden but large response in Switzerland – big difference in third-party reporting
  – Zucman & co assume 15% tax avoidance/evasion response to a 2% Warren wealth tax
• Other policies need to come alongside tax, including how treat gifts, value assets without market values etc

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