The Taxing Wealth Report 2024

The shorter edition

Richard Murphy

The Taxing Wealth Report 2024

Richard Murphy

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The Taxing Wealth Report 2024

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Author's foreword

The Taxing Wealth Report 2024 happened because my Finance for the Future[1] colleague and partner, Colin Hines, suggested that it really was time that we wrote a report on how taxation could be used as a source of finance for the Green New Deal, on which we have worked together since 2007[2]. In writing this report I have built on previous work that we have undertaken on the use of quantitative easing and savings as sources of savings to be used for this purpose[3]. In completing our trilogy on this theme we have also completed our QuEST (quantitative easing; savings; taxation) for the essential sources of funding for the Green New Deal. Saying so, I am not sure that Colin anticipated a report of the scale that has flowed from his suggestion, but he has faithfully supported the work throughout its creation.

The time that I have spent on this project has been primarily funded by a grant from the Polden Puckham Charitable Foundation that was made available to the Finance for the Future partnership for the purposes of exploring how the Green New Deal might be funded. I am grateful to them for their support. They are not responsible for the recommendations made.

Nor is Sheffield University Management School, where I am professor of accounting practice. Some of the work on this project also took place as part of the activity for which Sheffield employs me.

Writing a report of this sort is a demanding occupation, but I cannot pretend that everything within it is making its first appearance as a tax reform idea within these pages. Some, albeit in earlier forms, has been published previously, particularly during the period when I worked most closely with John Christensen when we were together responsible for much of the output of the Tax Justice Network. This report builds on that foundation.

Finally, I must offer my thanks to my wife, Jacqueline, who has undertaken more of the editing and copy reading of this report than anyone. I thank her for her patience and comments, all of which I appreciated. Again, any remaining errors are mine: sometimes I made changes after she had finished her work.

[1] https://www.financeforthefuture.com/

[2] https://greennewdealgroup.org/

[3] See https://www.financeforthefuture.com/publications/

I did not expect the Taxing Wealth Report 2024 to absorb so much of my time. I was finally motivated to respond to Colin's request for a report on tax when I heard Lucy Powell MP, a Labour Shadow Cabinet minister, say[4] in July 2023 that 'there is no money left'. She did in the process of doing so echo the notorious similar claim made by Liam Byrne MP, who was Labour Chief Secretary to the Treasury in May 2010 when he left office and left a note for his successor stating that same thing.

Liam Byrne was wrong in 2010. Lucy Powell was just as wrong in 2023. We have paid an enormous price for that erroneous belief, which they have shared in common with all the UK's Chancellors of the Exchequer who have served in successive Conservative Party lead governments since 2010. It has never been true that 'there is no money left'. As the notes in this report that explain the economics of money and taxation make clear, it is not even technically possible for this claim to be true. A government can no more run out of money than a football team can run out of goals: governments always have the capacity to create more money just as every football team can always score more goals. The collective claims made by leading politicians of all UK political parties to the contrary are not, in that case, statement of fact. They are, instead, at best, statements of belief. They could also be something much worse than that: they might be deliberately misleading, being offered to deny that choices are available to this country that they do not wish to consider.

Whatever the situation, my motivation, shared with Colin, in writing this report was to make clear that we really do have political choices available to us and money is not a constraint on what we might collectively achieve as a society and that there is always enough available to do whatever we are capable of actually achieving. That is why I have written the Taxing Wealth Report 2024. I hope that when you have read some or all of it that you might agree.

Finally, a technical point. The chapters that make up this report were written between July 2023 and March 2024. Some legislation changed during that period. All data refers to legislation as it existed at the time the chapter was originally published at www.taxwingwealth.uk .

Richard Murphy

April 2024
Finance for the Future LLP
Ely, Cambridgeshire

[4] See https://www.taxresearch.org.uk/Blog/2023/07/18/labour-claims-there-is-no-money-left/

About the author

Professor Richard Murphy is professor of accounting practice at Sheffield University Management School. He was a member or Fellow of the Institute of Chartered Accountants in England and Wales for more than forty years and is a Fellow of the Academy of Social Sciences.

After a career as senior partner of a firm of accountants and as an entrepreneur he co-founded the Tax Justice Network, the Fair Tax Mark and Finance for the Future. He founded and still directs Tax Research UK. He co-created the Green New Deal and remains an active member of the Green New Deal Group. He is founder-director of the Corporate Accountability Network.

Richard created the concept of country-by-country reporting, which is now in use in more than 80 countries around the world to identify tax abuse by multinational corporations as a result of backing for it provided by the Organisation for Economic Cooperation and Development. Richard has created the concept of sustainable cost accounting.

Richard has authored a number of books including The Courageous State and The Joy of Tax. He blogs, usually daily, at Funding the Future[5] and is a frequent commentator in the media on tax and accounting issues. In the last five years he has been named by the Institute of Chartered Accountants in England and Wales as the top social media influencer on accounting issues in the UK.

[5] https://www.taxresearch.org.uk/Blog/

Note about this edition of The Taxing Wealth Report 2024

This is the shorter edition of the Taxing Wealth Report 2024. This does not mean it is that short: it is still includes 64,000 words over more than 240 pages. It is simply shorter than the full edition. That has 126,000 words over more than 430 pages.

The difference between the two editions is that in this version only summaries of the proposals and some of the supporting notes are included. In each case, however, a link to the web page for the chapter is included following that short form explanation so that full details are easy to find for those who want to know more about the detail of any proposal or the workings that support the estimates made.

All those workings are included in the full edition.

Both editions are available at www.taxingwealth.uk

Chapter 1

A summary of the Taxing Wealth Report 2024's proposals

The Taxing Wealth Report 2024 was written for one primary reason. Its aim was to demonstrate that the claim made by politicians from both the UK's leading political parties that there is no money left to support the supply of better public services in the UK is not true.

The Taxing Wealth Report 2024 shows that there is the potential to raise around £90 billion of additional tax revenue each year from fairly straightforward reforms to the UK's existing tax system.

All of these reforms would result in additional tax being paid only by those who are better off. Unless a person's income comes mainly from investments or rents, very little of what the Taxing Wealth Report 2024 suggests would have very much impact on them unless their income exceeded £75,000 per year. This would, however, be fair. As the Taxing Wealth Report 2024 shows, those with wealth in the UK are massively undertaxed compared to those who work for a living. Correcting this imbalance is entirely appropriate, simply in the interest of social justice.

Importantly, whilst the detailed workings underpinning the Taxing Wealth Report 2024 have required a lot of research, the ideas implicit in the recommendations made are quite straightforward. So, for example, it is suggested that pension tax relief should only be provided at the basic rate of income tax whatever the highest tax rate of the person making the contribution. If that change was made an additional £14.5 billion of tax would be paid in the UK each year.

It is also proposed that national insurance should be paid by anyone on their earnings from work at the same rate, and that the reduction in that rate that now applies for those earning more than about £50,000 a year should be abolished. This might raise more than £12 billion in tax a year, assuming national insurance rates used in 2023.

If an income tax charge equivalent to national insurance was also made on all those with income from investments and rents or capital gains exceeding in combination £5,000 a year, then that simple change might raise £18 billion in revenue each year whilst removing an obvious injustice within the tax system that has also been widely exploited by those seeking to avoid tax.

Aligning income tax and capital gains tax rates when there is no obvious reason why they should differ might raise a further £12 billion of tax year.

If only HM Revenue & Customs could be persuaded (or funded) to collect tax from all small companies that owe it when at least 30% of that revenue is lost each year at present due to under-investment in its collection, then maybe £6 billion a year of extra corporation tax might be collected, plus as much again in additional VAT and PAYE which is also likely to be lost from those companies not paying the corporation tax that they owe.

Charging VAT on the supply of financial services, almost all of which are consumed by those with wealth, might raise £8.7 billion a year, having allowed for existing insurance premium tax payments.

Numerous other, smaller, tax changes could also be made, whilst some inappropriate charges, like those for student loans that only raises £4 billion a year for what is, in effect a tax, could be abolished.

On top of all this, what the Taxing Wealth Report 2024 also shows is that if the conditions attached to tax-incentivised savings in ISA and pension fund accounts were changed then up to £100 billion of savings per annum could be transferred from their current speculative use to become the capital that is necessary to underpin the transformation of the UK economy. That money could either be invested in our crumbling state infrastructure, or in the transition that is necessary to beat the impact of climate change. Incentives for such tax-incentivised savings accounts now cost £70 billion a year, which is more than the UK defence budget. Almost no social benefit currently arises from this massive subsidy to wealth. In a country where there are £8,100 billion of financial assets, this transformation will not rock financial markets, but it will transform the future prospects of the UK.

That transformation might come in three ways.

Firstly, and vitally, inequality in the UK might be addressed. The tax owing by those on low pay has to be reduced and the benefits that they enjoy have to be increased if everyone is to have a chance of fully participating in the UK economy without the stress that millions now suffer.

Secondly, if the UK government undertook measures to tackle inequality and simultaneously spent more on recruiting suitably qualified people to supply UK government services of the standard that is now needed to meet our current health, social care, housing, justice and environmental crises then the boost to household incomes that would inevitably follow would provide the basis for the growth that every government claims to be necessary. Growth cannot come before that spending takes place. It would, as a matter of fact, follow it.

Thirdly, the UK has under invested in its own future for decades, having placed all its savings into the care of the City of London, who have used them for speculative activity rather than for the creation of real economic activity. Correcting that by redirecting tax incentivised savings into investment in the essential underpinning of the economy that we need might, yet again, generate new income for the UK's private sector and households, whilst ensuring that we are equipped for the very different future that we must face.

Having money available will not guarantee that the UK will have a better future. However, without there being money available, that future is not possible. The Taxing Wealth Report 2024 demonstrates that more than enough money is available to transform our society, to increase the incomes of those in need in the UK, to create growth, to stimulate employment, to increase the well-being of our companies, and to underpin the investment that we require. No politician can now say otherwise. The fact is that the choices that they can make are explained in this report. If they do not wish to use the options that it demonstrates are available, it is for them to explain why. However, what none of them can ever claim again is that there is no money left, because it is there for them to ask for whenever they wish to use it, and that is precisely why the Taxing Wealth Report 2024 matters.

Summary of proposals

The Taxing Wealth Report 2024 is made up of a series of proposals for the reform of taxes and the administration of tax in the UK, with some selected supporting explanatory notes also being added.

These proposals and the value of the reform that they suggest are as follows:

		Annual value of proposal £'bn
Income tax reforms		
1	Restricting pension tax relief to the basic rate of income tax	14.5

2	Recreating an investment income surcharge in the UK tax system	18.0
3	Capping the rate at which tax relief is given on charitable donations under Gift Aid	0.7
4	Capping ISA contributions in a lifetime	0.1
5	Reintroducing close company rules for income and corporation tax	3.0
6	Abolishing the domicile rule for tax purposes	3.2
7	Changing UK tax rates	-19.1
National insurance reforms		
8	Reforming national insurance charges on higher levels of earned income in the UK	12.5
Capital gains tax reforms		
9	Aligning capital gains tax and income tax rates in the UK	12.0
10	Abolishing capital gains tax entrepreneur's relief	2.2
11	Reducing the annual exempt amount of capital gains a person might enjoy a year to £1,000	0.4
12	Charging capital gains tax on the final disposal of a person's main residence	10.0
Corporation tax reforms		
13	Reforming the administration of corporation tax in the UK	6.0
14	Increasing the corporation tax rate for the UK's largest companies	7.0
15	Reforming Companies House	6.0
Inheritance tax reforms		
16	Abolishing the inheritance tax exemption on some funds retained in pension arrangements at the time of a person's death	1.3
17	Reforming inheritance tax business property relief	3.2

18	Reforming inheritance tax agricultural property relief	1.0
19	Reforming the rates at which inheritance tax is charged	0.0
20	Restricting charity tax reliefs to prevent their abuse	0.0
VAT reforms		
21	Abolishing the VAT exemption for financial services within the UK	8.7
22	Abolishing the VAT exemption for services supplied by private schools	1.6
Council tax reforms		
23	Council tax reforms	0.0
Student taxation reforms		
24	Student taxation reforms	-4.0
Tax incentivised savings reforms		
25	ISA tax relief reforms relating to required investments to qualify for tax relief	3.7
26	Pension tax relief reforms relating to required investments to qualify for tax relief	0.0
Administrative reforms		
27	Better estimation of the UK's tax gap might prevent the illicit accumulation of wealth.	0.0
28	The UK needs to undertake tax spillover assessments if tax abuse is to be beaten.	0.0
29	Creating on Office for Tax Responsibility	0.0
30	The reform of HMRC, its goals, and funding	0.0
Background notes		
31	Methodology notes	0.0
32	UK taxes in 2022/23	0.0

33	The political economy of tax and money	0.0
34	The UK's national debt: How to understand and interpret it	0.0
35	Tax and money flows in the economy	0.0
Next steps		
36	What the Taxing Wealth Report 2024 has not done and where taxes might go next if we are to have tax justice in the UK	
Total value of tax reforms		92.0
	ISA savings reforms - sums released for investments to qualify for tax relief	70.0
	Pension savings reform - sums released for investments to qualify for tax relief	35.0
Total annual value of funds released by reforms		197.0

A web version of this summary is available here:
https://www.taxresearch.org.uk/Blog/2024/03/04/the-taxing-wealth-report-2024-a-pre-budget-summary/

Chapter 2

The Taxing Wealth Report 2024

Introduction

The goals of the Taxing Wealth Report 2024

The Taxing Wealth Report 2024 is about three things.

Firstly, it is a response to all those politicians in the UK who suggest that there is no money left to spend on essential public services. This report comprehensively proves that this claim is wrong. What it shows is that there is enormous opportunity to raise additional money from taxes, and from tax incentivised savings, to fund both the ongoing routine expenditure that any UK government now needs to incur to improve the quality of our public services, and to provide the necessary capital that could underpin the transformation of our economy from its current poor state into being the sustainable economy that so many people want and everyone needs.

Secondly, this report demonstrates that the wealth of UK resident people has been under-taxed in the UK. It can, quite reasonably, be asked whether the scale of that under-taxation can ever be properly appraised, and it is accepted that the basis on which this suggestion is made in this report is open to challenge and reinterpretation. However, so great is the scale of that under-taxation of the increases in wealth in the UK compared to the level of charge imposed upon income in this country that the claim made in this Report that wealth is under-taxed is considered indisputable. The Taxing Wealth Report 2024 suggests that wealth is under-taxed by £170 billion a year when total tax revenues in the UK in the tax year 2022/23, ending in March 2023, amounted to £899 billion. The under-collection of tax from wealth does, in that case, amount to almost twenty per cent of potential total UK taxation revenues. If anyone wants to know why the UK appears to be an increasingly divided society, it is precisely because of the way in which our tax system has been constructed over many years, and even decades.

Third, what the Taxing Wealth Report 2024 shows is that there are pragmatic, practical and easily deliverable solutions to both of these issues. Over a wide range of suggested changes, totalling more than thirty in number, more than £90 billion worth of potential additional tax

revenues are identified. In addition, changes to tax incentivised savings arrangements that could release more than £100 billion of further funding for investment for social purposes in the UK are also detailed. Both of these sums are larger than any currently estimated costs of the transformations required within our society. In other words, choices are available to any government wishing to effect change in the UK. The idea that the UK might be constrained by a lack of funding when seeking to create the society that it wants is wrong.

Putting tax in its proper context

Saying this, it is stressed, that tax is not all about raising revenue. In fact, as this report makes clear, in a very real sense tax never does fund government spending, however counterintuitive that might sound to most people. Instead, tax is the mechanism that the government uses to withdraw the money that it has created and put into use in the economy as a result of its spending. This is explained in more detail in the sections of this report on the economics of tax, money and the national debt. This distinction might appear pedantic to some, but it is vital for a number of reasons.

Partly this is because the role of tax within the UK economy has to be properly understood, and very few of the UK's politicians, journalists, tax officials, or supposed tax specialists have any proper understanding of that economic function of tax within our society. This has considerably hindered the quality of debate on taxation issues in the UK and undermined the chance of creating the tax system that this country really requires.

That lack of understanding has also prevented it being properly understood that tax, when freed from the task of funding government spending, is instead an instrument for the delivery of any government's social, economic and industrial policy. This makes tax a public good[6], which is a fact little understood or acknowledged by our current politicians. Social, industrial and economic issues are all important within the context of the taxation of wealth, but of the three social policy is particularly important.

The UK is a wealthy country with estimated net financial wealth (i.e. excluding property, land and buildings) of £8,100 billion according to the Office for National Statistics despite everything that has happened within its economy since the global financial crisis of 2008, which impacted it so heavily. However, it is also a deeply divided society where millions,

[6] A public good is a service that is provided without intention of profit being made to all members of a society, whether by a government or a private sector organisation. In the context discussed here, the important point is that tax is not a mechanism used to impose a burden: it is, instead, a way to deliver a benefit for the good of society as a whole.

including too many children, live in destitution[7] whilst others live a life of luxury[8]. Any ethical approach to taxation should recognise that the role that taxation can have in addressing this issue is one of the most important tasks that it can be used for.

Importantly, in this context, when suggesting that up to £90 billion of tax might be collected from the wealthy, it is not necessary to presume that all of this will be used to finance, or financially compensate for, additional government expenditure. Instead, it should be presumed that a significant part of any additional revenue raised might be used for the purposes of reallocating resources from those with wealth to those in need, compensating for the fact that at present, the UK has one of the meanest benefits systems amongst OECD countries[9]. It also has one of the lowest state pensions in proportion to national income[10], which has consequence in the number of elderly people living in poverty, fear, isolation, hunger, and cold in inadequate property ill-suited to their needs.

The pragmatic approach of the Taxing Wealth Report 2024

Many of those who are aware of issues relating to the under-taxation of wealth in the UK and seek reform as a consequence base the proposals that they make on radical reform to the UK tax system. This will often include suggestions for the creation of wealth taxes, or land taxes, or both. The Taxing Wealth Report 2024 does not do this. Indeed, as will be noted, a section is included amongst the early chapters that suggests why the creation of a wealth tax in the UK is inappropriate at this point of time.

The argument is straightforward. This would be unnecessarily politically complex, involve protracted delay, and would create enormous difficulties with regard to identifying the ownership and valuation of wealth as well as agreeing the thresholds above which that wealth might be subject to tax. More pragmatically, the capacity to actually raise tax directly from wealth as a consequence of imposing a charge on it is remarkably limited. As the section on council taxation in the Taxing Wealth Report 2024 notes, the capacity to raise additional revenue from increasing tax charges on high value properties is actually very limited. There are just not enough of them. The same is true of the high wealth in general, most of which would be practically difficult to tax. Many of the same observations would apply to a land tax. As a consequence, the Taxing Wealth Report 2024 does not propose either course of action.

Nor does the Taxing Wealth Report 2024 suggest that any existing UK tax be abolished, or be replaced by any new tax. This is the case despite the obvious deficiencies in some taxes,

[7] See https://www.jrf.org.uk/deep-poverty-and-destitution

[8] See https://www.thetimes.co.uk/sunday-times-rich-list

[9] See https://blogs.bath.ac.uk/iprblog/2022/10/28/how-generous-is-the-british-welfare-state/

[10] See https://commonslibrary.parliament.uk/research-briefings/sn00290/

including the inappropriateness of national insurance in a modern economy, the obviously outdated basis of charging used for council taxation, and the need for radical reform of inheritance tax. There is also a very obvious need for a progressive indirect tax in the UK to compensate for the regressive nature of VAT. It would, one day, be a great benefit if all these issues could be addressed. However, the Taxing Wealth Report 2024 does not think that day has arrived as yet. Instead, it is premised on the idea that when there are higher priorities, including the tackling of inequality, the need to improve UK public services, and providing the essential sourcing of funding for investment in the essential transition of the UK economy to a long-term sustainable basis in the face of climate change reforming existing taxes is the priority. Although there are structural faults in the UK tax system, remedying them is not as important as addressing these issues.

The logic of the Taxing Wealth Report 2024

As a consequence, having established that high income and gains from wealth are dramatically under taxed in the UK, what the Taxing Wealth Report 2024 seeks to do is to suggest how changes might be made to existing UK taxation so that these problems might be most pragmatically addressed with the expenditure of as little political capital as possible whilst delivering maximum impact. This logic underpins all the proposals made in this report.

Another logic is also present throughout this report. The Taxing Wealth Report 2024 presumes that all taxation is, eventually, imposed and collected by consent. There will, of course, always be those who object to taxation, and who will seek to evade and avoid it. Measures to address the activities of those people are noted in the sections of this report dealing with tax administration and, in particular, with regard to corporation tax abuse, but whilst those matters are of concern, it is more important that the consent of most voluntarily compliant[11] taxpayers is retained by the UK tax system. This is only possible if the UK tax system is seen to be just and equitable. It is very hard to describe the existing UK tax system as anything approximating to that.

There are, in essence, two standards for appraising fairness within any tax system. The first is described as horizontal tax equity, and the second as vertical tax equity.

Horizontal tax equity presumes that any source of enrichment that a person might enjoy should be taxed equally, whatever its source i.e., whether it comes from work or from wealth. The logic is not hard to understand. An additional pound in a person's pocket will always be worth £1 to them from wherever it comes. There is no tax justice if that additional pound is

[11] Tax compliance is defined as seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes.

taxed less if it came from one source rather than from another. Not only is this obviously unfair, it also provides an incentive to abuse the tax system. As a consequence, the tackling of horizontal inequity within the UK tax system is a recurring theme of the tax wealth report, not least because very large parts of it lack horizontal tax equity at present.

Vertical tax equity has a different logic to it. This concept is based upon the idea that as a person sees their income or wealth increase then each additional pound that they accumulate from either source has decreasing net worth to them. It is obviously true that £1 is worth more to a person on the UK's minimum wage (let alone a person trying to survive on Universal Credit) than it is to a person who earns £100,000 or more a year, or who has savings of in excess of, say, £1 million. If that is the case, then it also logically follows that the perceived loss arising to a person as a result of tax paid is greater to the person on low income or with low wealth than it is to the person with higher income or wealth. There is, in that case, inherent and equitable logic to the idea of progressive taxation, where equality is achieved by ensuring that the approximate value of the loss suffered by a person out of each individual additional pound of income or wealth accruing into them is equivalent, whatever their source of income. This necessarily requires much lower rates of overall taxation on those with low income and wealth than it does on those with higher incomes or wealth.

As the Taxing Wealth Report 2024 makes clear, we are in nothing like that situation in the UK at present when those on the lowest income are likely suffering the highest overall tax rates in the UK, whilst those on moderate income see very little variation in their overall tax rate as their income increases. However, those on the highest incomes do, when taking into consideration their opportunities to reduce their taxes owing by taking advantage of the reduced rates of tax available on capital gains and in private companies, pay very much lower rates of tax, overall. In fact, this report suggests that whilst those in the lowest decile of income earners in the UK might pay overall tax rates of forty-four per cent per annum, those enjoying the highest levels of income and wealth might pay rates of less than twenty-two percent per annum, or half that of those on the lowest incomes. There is, as a consequence, nothing approximating to vertical tax equity within the UK tax system at present. This, in turn, justifies many of the proposals made within the Taxing Wealth Report 2024.

The largest tax reforms proposed by the Taxing Wealth Report 2024

Numbers always attract media attention, and there are some very large numbers in the Taxing Wealth Report 2024. Given that one of the goals of this report is to suggest how a UK government could raise additional revenue to support the essential public services that this country requires, these numbers are important. The smaller reforms that are also proposed within the Report are not insignificant, but within the context of revenue raising do inevitably contribute less than the larger reforms noted here. As a consequence, it is the bigger reforms to which attention is drawn at this moment. The detailed description of each of those reforms,

and the method of calculation of the estimated sums that might be raised, are included in this Report.

a. Income tax reforms.

One of the largest income tax reforms proposed in this Report is the recommendation that the tax relief provided to persons making contributions to qualifying pension funds be restricted so that everyone making such a contribution gets tax relief at the same basic rate of income tax, which is currently twenty per cent. This would reduce the level of tax relief available to those who currently make pension contributions and who enjoy tax relief upon them at rates of either forty per cent or forty-five per cent. The total saving from this simple change would amount to an estimated £14.5 billion pounds a year.

b. National insurance reforms

National insurance is a deeply unfair tax within the United Kingdom. Two major reforms are suggested with regard to this tax. The first of these reforms deals with an obvious anomaly, which is that when a person's income from an employment exceeds the equivalent of £50,270 a year, then the national insurance charge that they pay falls from 10% (when this written) to 2%. There is, admittedly, a corresponding income tax increase at the same time, but nonetheless, this reduction rate applies right across all income bands above this sum, meaning that those on high pay do, overall, get a substantial benefit as a consequence of paying much reduced overall national insurance charges in proportion to their income than are paid by those on lower incomes. This contravenes vertical tax equity, and it is therefore proposed that this reduced rate of national insurance is abolished. If this was to be done an additional £12.5 billion of national insurance revenue would be raised each year.

The second national insurance reform would actually be collected through the income tax system but is nonetheless motivated by a major design deficiency within the national insurance system. National insurance is only charged on income from work, whether by employed or self-employed people. It is not charged on any income from any other source, including all investment income of all sorts. This creates an enormous horizontal inequity within the UK tax system.

That inequity has given rise to significant effort on the part of many taxpayers to avoid national insurance charges by artificially recategorising their income as if it is from investment sources. This has been particularly commonplace amongst those who offer their employment by way of contract, many of whom have created limited companies for this purpose from which they pay themselves dividends and not a salary, so avoiding the national Insurance charges on that salary. However, other types of income also avoid a national insurance charge simply because of their nature, and with the rise of unearned income, e.g. from rent, within

the UK economy this inequity is now considerable. Until the 1980s, when it was abolished by Margaret Thatcher, the UK had what was described as an investment income surcharge within its income tax system. This was an additional 15% tax charge levied on income from investment sources above a limit laid down in law. This charge approximated to the national insurance paid by employees but was still considerably less than the combined rate of national insurance paid by employers and employees on income from work. The recreation of this investment income charge would make considerable sense at this time and restore fairness to the UK tax system as well as removing an incentive to avoid tax. It is estimated that an additional £18 billion a year could be raised by the recreation of this charge.

c. Capital gains tax reforms

Capital gains tax is a tax greatly favoured by those who wish to avoid tax liabilities that might otherwise be subject to income tax in the UK. Avoiding the recategorisation of income as gains was, in fact, the original motive for the creation of this tax in 1965. Little has changed since then. Because of the current substantial differential between income tax rates and capital gains tax rates in this country, where broadly speaking most capital gains tax rates are half those that would be paid on income of an equivalent sum (with no national insurance also being due). As a result, the attraction of being subject to capital gains tax instead of income tax still remains considerable. To avoid this obvious horizontal inequity within the UK tax system it is proposed that the tax charges on income and capital gains should be levied at the same rate, with anyone's capital gains tax liability being treated as the top part of their income for taxation assessment purposes subject only to a much smaller tax exemption than at present, meaning that a person's highest rate of income tax would be payable upon any capital gains. Undertaking this simple change to the tax system might raise an additional £12 billion of tax a year.

This Report also proposes one further significant change to capital gains tax. The largest single exemption within the UK tax system, excluding the personal allowance for income tax purposes, is the capital gains tax exemption provided on the sale of a person's main residence, or home. This relief is estimated to be worth more than £30 billion a year in total. Politically any attempt to change this relief would be unpopular, but there can be no doubt that disparities in wealth arising from differing access to homeownership have considerably increased inequality in the UK.

In part this is an age-related issue, with those who are now older having enjoyed the opportunity to acquire their homes at considerably lower prices in proportion to their income than do those who are now younger in the UK. Another element relates to the problems that younger people now have in saving for deposits to even begin a mortgage application to acquire a home. Overall, increased funding to secure additional social housing, plus funding

for enhanced investment in housing in general, would improve this situation. Therefore, tax reform in this area is required.

The Taxing Wealth Report 2024 addresses this issue by suggesting that, instead of a person's main residence being subject to inheritance tax on their death, when only a small number of these properties are ever subject to that charge, a capital gains tax charge should instead be imposed upon the lifetime gains by the last survivor of a spousal relationship that has owned a property when making disposal of it either because of death or because of simply ceasing to make use of it. This charge would be relatively straightforward to calculate in most cases, and approximations would be possible in the event that records were not available. The resulting additional taxation arising from this proposal, having allowed for the loss of inheritance tax payments owing, is estimated to be approximately £10 billion per annum, although this might increase over time.

d. Inheritance tax reforms

Inheritance tax is an enormously unpopular tax in the UK, not least because it lacks vertical equity.

The Taxing Wealth Report 2024 report does suggest reforming the single rate of tax used by this tax at present, suggesting that it be replaced with a much more progressive system. That said, this would not create additional revenue: it would simply redistribute liabilities more fairly.

The greatest cause of vertical inequity with regard to this tax arises because those with wealth in the UK tend to be able to use the exemptions and relief available within it to avoid many of the charges that they might otherwise owe. In this regard, no one has ever been able to provide any serious economic justification for the existence of the tax exemptions relating to business property or agricultural property within the inheritance tax regime, or their universal application to persons owning such assets. This Report recommends the reform of both these reliefs, with the substitution of tax deferral arrangements as an alternative and even then, potentially with regard to only a limited range of business assets. These reforms, which are essential if this tax is to be made fairer might together deliver an additional £4.2 billion tax revenue year.

e. Corporation tax reforms

Corporation tax has been subject to much press and other comment over many years as a consequence of abuses by some large companies, some of which made Amazon, Google, Apple and Starbucks, amongst others, notorious for a while. However, recent reforms with regard to international corporation tax need time to bed down at present to assess their

effectiveness, and therefore no further reforms in this area are recommended in the Taxing Wealth Report 2024.

Instead, the Taxing Wealth Report 2024 primarily focuses its attention on the UK's domestic corporation tax system, and particularly on the creation of appropriate mechanisms to ensure that the UK's smaller companies make settlement of the taxes that they might owe. When even HMRC estimates that almost thirty per cent of these liabilities might go unpaid each year[12], and with this Report suggesting that this estimate might be significantly understated, this is a matter of considerable priority within the UK. It is likely that much, if not most, UK tax evasion is undertaken through the medium of limited liability companies. This non-payment of tax undermines horizontal tax equity. The tax system itself is also undermined by the tolerance of this criminogenic environment. In addition, those who accumulate untaxed funds increase inequality within the UK, wholly inappropriately and criminally.

Four recommendations are made to address this issue. The first refers to actions required by HM Revenue & Customs. The simplest of these is that the UK tax authority require that every company in the UK file a corporation tax return each year. Surprisingly, this is not the case at present. Approximately half of all companies are exempted from this obligation with HM Revenue & Customs' consent because our tax authority accepts, without apparent enquiry being made, an unevidenced statement made by a company that it is not trading. It is then commonplace for HMRC to not require a corporation tax return from the company in question for at least five further years.

Then it is proposed that it should be required that the UK's banks be obliged to automatically provide our tax authority with information each year on the identities of all the companies to which they provide services during a year. This return of data should also specify the names and addresses of those people that the bank in question have identified to be controlling the company, and the total sum that they have recorded as deposited in its bank accounts during a specified twelve-month period. Systems to collect this information already exist with regard to foreign-owned companies operating in the UK, so extending this arrangement to UK-owned companies would be entirely straightforward and have minimal cost. However, the consequence of the provision of this data would be that HMRC would be able to check which companies that have not provided it with a corporation tax return might actually have a liability to that tax, and so in all likelihood to other taxes such as VAT and PAYE income tax, because they had been in operation during a period. This would then ensure that HMRC's resources could be properly focused on those companies where tax recovery is most likely.

[12] https://www.gov.uk/government/statistics/measuring-tax-gaps/5-tax-gaps-corporation-tax

The third element in this proposal is a suggestion that those controlling companies that do not make disclosure of their tax liabilities to HM Revenue & Customs, whatever the tax might be, should be made personally liable for the taxes owing by the companies that they control even if that company does enjoy limited liability. UK limited liability companies should not be used to create a criminogenic environment where horizontal and vertical tax equity are undermined, the rule of law is threatened, and wealth is criminally accumulated without tax charges arising, so increasing inequality within the UK. The removal of limited liability protection from those who are abusing the privilege would prevent this happening.

The last recommendation is that the UK's Companies House, which is the government agency responsible for collecting data from UK limited liability companies, be reformed. This agency, which has always taken what might be politely described as a lax attitude towards non-compliance with UK company law, currently fails to collect data from more than 400,000 UK limited companies a year, on average. This means that the information required by HMRC to collect tax from these entities is effectively unavailable to it, and as a consequence, tax evasion by these entities is effectively officially sanctioned at present, which must be unacceptable. Enhanced powers for Companies House to collect necessary data are, therefore, essential, which need to be used in association with the automatic information exchange from banks, noted above, so that tax owing in the UK can be collected.

These recommendations, taken together, might raise approximately £12 billion of extra tax in the UK each year from those who are largely seeking to evade it at present. An unknown sum of other taxes might also become payable as a result.

A final recommendation with regard to corporation tax is made in the Taxing Wealth Report 2024. This is that, whilst in the last two years, a differential in the tax rates applied to the profits of large and small companies has been re-introduced into the UK tax system after a period when it had been eliminated, it remains the case that this is a historically small differential at just 6%, with many large companies having opportunity because of tax relief and allowances available to them to largely eliminate this difference. There are good economic reasons why large and small companies should pay different rates of corporation tax, particularly relating to the differing ease with which they can access capital from banks and other financial markets, which are heavily biased against small companies. They also tend to pay significantly different interest rates on their borrowings, which rates are always higher in the case of small companies. If the UK wants its small companies to thrive it is appropriate that a differential of at least 10% exist between these corporation tax rates, which was a commonplace historical differential. Reinstating this differential would raise approximately £7 billion per annum of additional tax.

f. VAT reforms

There are many reasons to be concerned about the inequity of the UK VAT system, which is inherently regressive, and therefore vertically inequitable. However, within the context of the Taxing Wealth Report 2024, it is unlikely that any major reforms would be possible to this tax and therefore only a few detailed recommendations are made.

The only such recommendation that would create substantial revenues is with regard to the current VAT exemption available upon the provision of financial services by banks, insurance companies, and other such financial services providers. VAT exemption means that VAT is not charged on the supply of these services, reducing the effective price that consumers pay as a consequence. Since most financial services products are consumed by those with wealth, because those without wealth have little reason to use them or the means to do so, it follows that this exemption within the UK tax system is vertically inequitable and should be removed. Even allowing for reductions in insurance premium tax that might result as a consequence of the removal this exemption, it is estimated that more than £8 billion of additional tax revenue might be raised a year by making this change.

g. Council tax reforms

Many tax campaigners point to the differing council tax systems that exist in England, Wales and Scotland (but not Northern Ireland, which has a quite distinctly different system altogether) as evidence of the inequity of the UK's tax system, and they have an obvious point. Council taxes are very obviously not vertically equitable because of their charging structures. However, those who suggest that reforms are essential by creating higher charges on the most valuable properties presume that this change will raise significant revenues. Unfortunately, they have failed to notice that just 0.6 per cent of all properties actually fall into the existing top band of council tax charge within the UK. It is, therefore, unlikely that any significant reform of this sort will raise any significant additional revenue.

As a consequence, and consistent with the overall spirit of the Taxing Wealth Report 2024 to promote pragmatic ideas, no significant reforms to council tax in any of the UK's nations that make use of it are proposed in this report. It is, however, suggested that the following reforms are made:

- Property revaluation should take place so that current values are in use. Given advances in information technology and AI it is likely that this would be a very much less complicated affair than has always been assumed to be the case in the past.

- The number of council tax bands should increase, particularly at the top end, but also potentially at the bottom end.

- The fixed differential between top and bottom rate council tax charges should be eliminated, with a much greater diversity of charges being permitted, particularly at the top end.

- Additional tax charges on second properties and on empty properties should be made mandatory, and increase in proportion to those charged on main residences.

All these changes having been noted, if the current inappropriate level of charges on low value properties are reduced as vertical taxation equity would appear to require, then it is unlikely that any of these proposals would increase the net taxation revenues resulting from any UK council tax system.

h. Student taxation

The UK does not, officially, have a student taxation system, but in practice it does. Anyone who has graduated in the UK since 1998 could have been made a loan that was intended to cover their tuition fees and (since 2006) part of their maintenance costs while studying at UK universities, with a slightly differing arrangement applying in each of the UK's separate countries.

Again, subject to some slight variations, repayment of liabilities owing on these loans, including the quite high levels of interest charged upon all outstanding balances, is made through the UK's tax system, with charges now being commonly applied in England at a rate of 10% on all income exceeding a threshold depending on the loan made available of between £21,000 and £27,660 per annum at the time of writing.

This charge creates considerable horizontal and vertical inequity within the UK tax system, particularly because the charge imposed is very obviously a tax and is in no way related to the total liability that the person might have outstanding for their education. The system is also potentially a contributor to wealth inequality in the UK because the children of wealthy parents rarely have reason to take out a student loan whereas those not in that fortunate position will have had to do so.

Almost every recommendation made in the Taxing Wealth Report 2024 with regard to horizontal and vertical taxation equity is distorted by the existence of this student tax. The absurdity of that situation is exacerbated by that charge rarely having much chance of ever recovering most of the cost incurred in providing education to those who have been to UK based universities during the period when such loans have been created. To date, more than £200 billion of student loans have been created, but the total tax liabilities recovered by HMRC in the year 2022/23 with regard to such loans was just £4 billion.

Not only are student loan charges now a significant impediment to bright young people going to university at a time when the UK is desperate to improve its skills base, this tax is unjust because it does not in any sense relate to the liabilities owing by a person but does instead impose a tax purely because of a person's choice of career path when it has been national policy to encourage up to 50% of young people to go to university.

Given the small sums of revenue collected each year it is proposed that the student tax in the UK be abolished and that the government deal with the resulting consequences for the UK national debt however it thinks is appropriate. What is clear is that the UK tax system can no longer be distorted by this charge if it is to be just and equitable.

i. The administration of tax

Creating new tax laws, or changing those already in existence, does not guarantee that additional tax revenues are collected. Doing that requires that the UK has an effective tax authority, and very few people are currently persuaded that this is the case.

Most certainly, the House of Commons Public Accounts Committee, which undertakes the most rigorous scrutiny of the activities of HMRC, persistently reports on the weaknesses within HM Revenue & Customs and the need for it to reform itself. This is an issue on which the author of this report has long being engaged. The Taxing Wealth Report 2024 makes four fundamental recommendations which regard to the reform of the administration of HMRC.

First, it is recommended that the governance of our tax authority be transformed. The present governance arrangements of HM Revenue & Customs copies that which might be appropriate for a large public corporation, which it very clearly is not. The use of inappropriate governance structures that presume that an organisation is a business when it is not, meaning that its management think that its costs must be minimised and its directors must be protected from criticism, has become particularly apparent in the wake of the Post Office sub-postmaster scandal, where similarly inappropriate governance structures to those used by HMRC were in use.

It is also particularly inappropriate that many of the senior civil servants responsible for the management of HMRC have limited tax experience. It is even more inappropriate that the so-called non-executive directors of the agency are drawn from the ranks of large firms of accountants and big businesses, many of whom have represented organisations that have been subject to significant scrutiny for their own tax compliance arrangements.

Adoption of this governance approach has led to HMRC abandoning the idea that it is the provider of a public good[13]. It has, instead, assumed that its responsibility is to minimise the cost of recovering tax due and it has been willing to compromise horizontal and vertical tax equity and the need to ensure compliance with the rule of law to achieve this goal. It has also closed almost every tax office in the UK's communities over the last decade or so, and has sought instead to concentrate all services online, with the result that considerable taxpayer dissatisfaction with the quality of service received has arisen.

That has been exacerbated by the fact that since its creation as a result of the merger of the Inland Revenue and HM Custom and Excise in 2005, HMRC has reduced the number of staff it employs from just under 100,000 people, to just over 60,000 people. Unsurprisingly, as a result phone calls go unanswered, correspondence is not replied to on a timely basis, the number of tax investigations undertaken has fallen significantly, tax debts have risen substantially, and the chance of a person being provided with the help that they might require to make payment of the proper tax that they might owe if they require assistance to calculate this sum has almost entirely disappeared.

The tax reform recommendations made in the tax administration section of the Taxing Wealth Report 2024 take all the above factors into account and suggests:

- Putting an entirely new management structure for HM Revenue & Customs in place that reflects its obligation to everyone in the UK, and not just those with significant wealth or who are multinational corporations.

- That HMRC should have the objective of restoring its status as the supplier of a public good reimposed upon it. Its objective should be to assist every taxpayer to be tax compliant, where that is defined as seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes.

- That HMRC's objective should, as a consequence, be the collection of as much tax as possible, including from those who are reluctant to make payment, recognising that this will require investment in significant additional resources to achieve that goal, including the reopening of its local office network so that taxpayers can access the

[13] A public good is a service that is provided without intention of profit being made to all members of a society, whether by a government or a private sector organisation. In the context discussed here, the important point is that tax is not a mechanism used to impose a burden: it is, instead, a way to deliver a benefit for the good of society as a whole.

face-to-face help that they need to ensure that they can comply with their obligations to pay tax.

- That HMRC should be subject to significantly more scrutiny than it has been to date, and that an independent Office for Tax Responsibility (OTR) should be created to undertake this work, subject to strict conditions on the personnel that it might employ. This OTR should be primarily responsible to parliament, with the Public Accounts Committee being able to set terms of reference for the audits that it should undertake.

- The Office for Tax Responsibility should become the agency responsible for calculating the UK's tax gap, which is the differences between the tax revenues that the UK should be able to collect and the tax revenues it actually recovers during the course of a period. This should include estimates of tax loss because tax bases, such as wealth, are not subject to taxation and annual audited estimates of tax lost because of the granting of tax exemptions, allowances, and reliefs, the appropriateness of which should be subject to constant review.

- The OTR should also be responsible for the preparation of an annual tax spillover assessment for the UK. Tax spillover assessments identify the ways in which one part of a tax system undermines another part of that same tax system, or that of another country, meaning that the expected amount of tax is not paid as a result. Tax spillover assessments do, as a result, complement proper tax gap assessments by highlighting why it is likely that anticipated tax revenues are not paid. The current low rate of capital gains tax in the UK is an example of a tax spillover that undermines the UK tax system. The low capital gains tax rate encourages abuse of income tax and inevitably reduces the UK's tax yield in ways that undermine horizontal and vertical tax equity as a consequence.

- Finally, the OTR should make recommendations on the budget that should be made available to HMRC so that it might undertake the tasks required of it when at present it is clear that the UK's tax authority is significantly underfunded to achieve the tasks that society expects that it fulfil.

The technical background to the Taxing Wealth Report 2024

Much of the Taxing Wealth Report 2024 focuses upon detailed recommendations for change within the UK tax system. However, when making such suggestions the Taxing Wealth Report 2024 recognises that the tax system has much broader implications for society than the simple raising of revenue for the government.

In particular, a tax system has to be an integral part of the overall macroeconomic management system of a jurisdiction. This requires that the relationship between tax paid and government expenditure, and the consequent deficits and surpluses that arise must be understood by anyone making suggestions for change within the tax system since that relationship means that the manner in which the tax system operates has, in itself, implications for the overall effectiveness of that macroeconomic management system.

In addition, as is apparent from much of the discussion within the Taxing Wealth Report 2024, no tax system is neutral as to its impact on society. This necessarily requires that those responsible for making decisions on tax fully understand the way in which government money creation and taxation interact and the way in which tax might be used as a tool in economic, social and industrial policy. The Taxing Wealth Report 2024 includes three chapters explaining these issues so that they might be properly understood.

The Report as a whole only makes sense within the context that they describe because its intention is not just to explain how additional government revenues and funding for capital expenditure might be raised, although succeeds in doing that. It also seeks to explain how the UK's tax system both can and should be used as a tool to help the creation of a better and fairer society for all who live in the UK. Recommendations made seek to achieve this goal. In that context understanding how and why they can do this is important. Tax is a matter that impacts on a great many aspects of everyone's lives. That is why this report is important.

A web version of this summary is available here:
https://taxingwealth.uk/2024/03/20/the-introduction-to-the-taxing-wealth-report-2024/

Chapter 3

The under-taxation of wealth in the UK

Brief summary

This chapter suggests that, based on a review of taxes paid, UK national income and changes in UK wealth from 2011 to 2020:

1. 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 on highest incomes the tax rates paid by those on lowest income.

2. Has a very generous system of taxation on wealth that 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.

3. The combined average tax rate on income and increases in wealth over this period amounted to 25.6 per cent per annum.

4. 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.

5. Those with 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.

6. 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:

a. There is significant additional capacity to tax in the UK, although only from those with most income and wealth.

b. A strong case for reducing the tax paid by those on lowest incomes can be made.

c. 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.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/06/wealth-is-undertaxed-by-170-billion-a-year-in-the-uk/

Background to this note

There has been much discussion of wealth taxation in the UK in recent years[14] [15]. The prospect of taxing wealth more has appeared increasingly attractive, most especially since the onset of the Covid crisis. Even the editorial board of the Financial Times has suggested that the issue requires further investigation[16]. More recently however, as a cost-of-living crisis has engulfed the country, politicians of all parties appear to have backed away from the issue, suggesting that they have no plans to increase taxation on wealth, let alone to introduce a wealth tax in the UK[17]. It is against this background that this report has been written.

[14] https://www.theguardian.com/commentisfree/2023/aug/28/wealth-tax-britain-labour-general-election

[15] https://www.lse.ac.uk/News/Latest-news-from-LSE/2020/L-December/Wealth-Commission-report#:~:text=The%20Commission%20concludes%20that%20a,society%20in%20times%20of%20crisis.

[16] https://www.ft.com/content/7eff769a-74dd-11ea-95fe-fcd274e920ca

[17] https://www.theguardian.com/politics/2023/aug/27/rachel-reeves-rules-out-wealth-tax-if-labour-wins-next-election

The debate on wealth taxes in the UK has lacked three things. The first is a broader perspective, because far too much attention has been given to wealth taxes rather than undertaking how we might better tax income and gains derived from wealth. The second is data on what is actually achievable within the current UK political climate. The third is focussed policy proposals. These are what the Taxing Wealth Report 2024 will add to debate.

However, before any of those issues can be addressed the capacity to charge additional tax on wealth in the UK needs to be established. It is this issue that this note addresses.

More detailed summary

This note seeks to appraise available data on whether or not there is capacity for those with wealth to pay more tax in the UK, or not. Having appraised data from the Office for National Statistics, HM Treasury and HM Revenue & Customs four main conclusions are reached.

The first is that in the period 2011 – 20 the national income of the UK was £15.8 trillion whilst in that same period the increase in net wealth was £5.8 trillion. It is stressed, that this last figure is not for total wealth, but the increase in the value of that net wealth in that period.

Second, the overall effective tax rates on all income during this period were likely to have averaged 32.9 per cent, but those on wealth increases did not exceed 4.1 per cent.

Third, if these rates had been equalised it would, at least in principle, have been possible to raise an additional £170 billion in tax revenue per annum from the owners of wealth.

Fourth, because there has been no attempt at equalisation of these tax rates and because the distribution of the ownership of wealth is heavily concentrated in the UK's population, the effective tax rate of the 10 per cent of those in the UK who are in the lowest earning group of taxpayers is likely to exceeds 44 per cent of their combined income and increases in wealth during a year, but the equivalent effective tax rate for those in the highest ten percent of UK taxpayers ranked by earnings is less than half that at just over 21.5 per cent.

It is, as a result, suggested that there is considerable additional capacity for tax to be raised from those who own most of the wealth in the UK, many of whom are in that top ten per cent of income earners.

Whether or not it would be desirable, or even technically feasible, to raise £170 billion of additional tax from additional tax charges on wealth is not the primary issue addressed by this note. Instead, the issue of concern being addressed here is that those most vulnerable to precarity within the UK are those who are paying the highest overall effective rates of tax.

Whether that is appropriate is the first question raised.

The second is whether, if that is not the case, any tax increases that might arise in future should have any impact upon those with lower income or gains in wealth.

The evidence in this chapter suggests that those with substantially higher income and wealth should bear the majority, or all, of the cost of additional taxes that might be required if additional public services are to now be provided.

That same evidence suggests that if additional taxes are required in the future to meet the costs of controlling inflation by withdrawing spending power from within the economy then that too should be met by imposing those additional charges on those with substantially higher than average income and wealth in UK society.

One further conclusion is reached, and that is that if there is to be a cost to be paid as a result of the essential transition that must now take place to a sustainable economy then this too must fall on those best able to make payment, which the evidence in this chapter makes clear are those with substantially higher than average income and wealth in UK society.

So clear is the evidence on this issue that another conclusion emerges, which is that so great is the disparity in the relative tax payments made by those on high and low earnings in the UK that there is prima facie evidence that this should be addressed whether or not overall net additional tax revenue is required. That is because there is now ample evidence that inequality creates significant social costs within any society, and it is apparent that the UK tax system is contributing to this problem.

Introduction

During the Covid crisis a consensus appeared to emerge that suggested that taxes on wealth should increase. Both the Pope and Archbishop of Canterbury appear to share this view[18] for example. They did so with the objective of reducing inequality in society. They were not alone. For example, the Financial Times said in an editorial comment that[19]:

Radical reforms — reversing the prevailing policy direction of the last four decades — will need to be put on the table. …. Policies until recently considered eccentric, such as basic income and wealth taxes, will have to be in the mix.

In the aftermath of that crisis and the supposed return to 'normality' that so many were desperate for some of those calls have been forgotten.

[18] https://www.taxresearch.org.uk/Blog/2020/04/13/the-need-to-rid-ourselves-of-neoliberal-thinking/

[19] https://www.ft.com/content/7eff769a-74dd-11ea-95fe-fcd274e920ca

There are, however, a number of good reasons to think that they should be revived. These include:

1. To tackle the consequences of the cost-of-living crisis that has emerged as the UK and other countries have emerged from Covid lockdowns in 2021, and thereafter.
2. To alleviate the pressure on government financing that has been a feature of the post-Covid era.
3. To add tax into the armoury of tools available to tackle inequality.

The last point is particularly relevant when it is understood that tax is one of the most powerful instruments available to a government to shape the society and economy for which it is responsible in the way that it thinks those who elected it might desire.

There are in essence only four bases on which tax can be charged:

1. Income (e.g., income tax, corporation tax, capital gains tax, national insurance)
2. Transactions (e.g., value added tax, excise and customs duties, specialist taxes e.g. on waste, air traffic and such like)
3. Land use (e.g., council tax)
4. Wealth (e.g., inheritance tax).

Of these, taxation of wealth is by far the least common in the UK. Only 3.7 per cent of UK estates currently pay this tax[20]. As a result it is appropriate to review the existing tax system that operates in the UK to see whether a demand for the increased taxation of wealth or of income derived from it is reasonable at this time.

The data used in this report to appraise this issue relates to the period 2011 to 2020, which is the last year for which suitable wealth data is available from the Office for National Statistics. The earlier date has been chosen to reflect the first year when some stability was restored after the global financial crisis of 2008.

[20] https://www.gov.uk/government/statistics/inheritance-tax-statistics-commentary/inheritance-tax-statistics-commentary#:~:text=The%20total%20number%20of%20UK,2021%20were%20%C2%A35.76%20billion.

Data sources for this note

Wealth data comes from the Office for National Statistics and in particular its wealth surveys[21] and [22]. GDP data has come from HM Treasury[i23]. Tax paid data has come from HM Revenue & Customs[24] excepting council tax and business rates which have come from successive HM Treasury budget reports for the years in question. Wealth distribution data has come from the Office for National Statistics[25] and income distribution data and data on income taxes paid has come from HM Revenue & Customs for the relevant period[26]. The effective tax rates of households by deciles for 2019/20 is calculated from data published by the Office for National Statistics[27] Data has not been inflation adjusted: the analysis undertaken does not require that this be done.

The object of the exercise that has undertaken has been straightforward: it has been to compare national income over this period, and tax paid on it, with the increase in wealth in the UK over that same period, and the taxes paid on that increase in wealth. The aim has to been to determine whether the taxes paid on these two sources of financial wellbeing are equivalent, and if not to suggest who has benefited and by what approximate amount and with what possible potential consequence.

For the purpose of this exercise it has been assumed that all taxes except the following have been paid out of income included in GDP:

- Capital gains tax;
- Inheritance tax;

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[21] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020

[22] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/individualwealthwealthingreatbritain

[23] https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp

[24] https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk

[25] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020

[26] https://www.gov.uk/government/statistics/percentile-points-from-1-to-99-for-total-income-before-and-after-tax

[27] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014

- Stamp duties;
- Some special schemes e.g. the one-off Swiss bank charge.

Most people, of course, do not pay these taxes. For example, in 2019-20 just 301,000 people paid capital gains tax[28].

Findings

The resulting data suggests that gross domestic product over this period and the tax paid on it was as follows:

Table 1 UK gross domestic product and tax paid on it 2011–20

	GDP	Tax paid on income	Average tax rate
	£'billion	£'billion	%
April 2011 to March 2020	15,775	5,193	32.9%
Average per annum	1,753	577	32.9%

Gross domestic product is the estimated total national income of the UK in a year, and includes all wages and profits from self-employment, corporate profits, interest, rents and other similar sources of income. It is the usual measure used to reflect our national economic well-being. The noted figure for tax collected does not include taxes on wealth, which are separately accounted for in this exercise[29]. These taxes have been noted previously.

It is also important to note that over this period the Office for National Statistics, which is responsible for preparing this data for the UK, included in its estimate of GDP what it describes as imputed rentals for housing[30]. This figure is the deemed rent that people who are owner-occupiers of houses in the UK are considered to pay themselves each year. The sum is included in GDP to make the data for the UK comparable with that of countries like Germany where renting (which cost is included in GDP when mortgage payments are not) is much more commonplace. It is, however, the case that this deemed payment is never actually paid and as such it can never be taxable, and as such the figures for GDP included in this analysis have been stated net of this deemed rental payment so that the actual likely taxable

[28] https://www.gov.uk/government/statistics/capital-gains-tax-statistics

[29] Also excluded are what are described as the 'other' sources of revenue for the government in each year, including all the fees and charges that they make for services provided.

[30] https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/datasets/consumertrendschainedvolumemeasureseasonallyadjusted

income of the country is used as the basis for estimation of likely tax rates paid. The adjustment is significant: this deemed rental payment can make up ten per cent of GDP in each year in the UK.

The increase in wealth over this same approximate period was as follows (the periods not being absolutely identical because precisely matching official data has not been published):

Table 2 UK net wealth increase and tax paid on it 2010 – 2020

	Increase in wealth £'trillion	Tax paid on wealth £'trillion	Average tax rate %
July 2010 to March 2020	5,773	220	3.8%
Average per annum	592	24	4.1%

Note that because of the way in which this data is collected the increase in wealth is stated over a period of a little over nine years, whilst tax paid is noted for an exact nine-year period: the average data corrects for this. Also note that this data relates to increases in wealth during this period, and not its value. As such this data relates to a flow of increased value, and not to a stock of wealth.

The increase in wealth over the period was made up as follows:

Table 3 The composition of UK net wealth increase 2010 – 20

	Increase in wealth 2010-2020 £'billion	Annual average £'billion	Total wealth 2020 £'billion
Property Wealth (net)	1,930	198	5,458
Financial Wealth (net)	624	64	1,933
Physical Wealth	304	31	1,385
Private Pension Wealth	2,915	299	6,445
Total Wealth (including Private Pension Wealth)	5,773	592	15,221
Total Wealth (excluding Private Pension Wealth)	2,857	293	8,776

It should be noted that much of this wealth, e.g., people's homes and private pension schemes are at present largely exempt from tax, but this does not mean that they are outside the tax system: indeed, the fact that they are exempt from tax means that their relationship to the tax system is of some significance when considering issues related to the taxation of wealth. Their increase in value during the period was, in effect, tax subsidised. Consideration of whether the exemptions from tax that these assets enjoy is appropriate is a necessary part

of any discussion of the taxation of wealth and income derived from it. The status quo cannot be changed without some of its assumptions being challenged.

In addition, the fact that increases in the value of homes and pensions may not result in immediate cash benefits to those who own them does not mean that such increases do not contribute to the overall increase in the financial wellbeing of those who gain: both the sense of security that such increases in wealth provide, and the means that they afford to live in greater comfort at some time in the future have direct impact on the manner in which those enjoying them both feel in the present, and on their consequent actual behaviour with regard to consumption and lifestyle choices. As such they cannot be discounted in any discussion on current taxation, not least because they do provide greater capacity tax at present in the vast majority of cases[31].

Taking the annual averages for this combined data produces the following information:

Table 4 UK average income per annum, average wealth increase per annum and tax paid on both 2011 – 20

	£'billion	Average tax paid £'billion	Average tax paid %
Average income per annum	1,753	577	32.9%
Average wealth increase per annum	592	24	4.1%
Total increase in financial resources	2,345	601	25.6%

It is immediately apparent that wealth increases are taxed at substantially lower rates than income is. Without seeking to further finesse the assumptions made, if increases in wealth had been taxed at the same rate as income then an additional £170 billion of tax revenue might have been raised in the UK each year. Whether this is desirable is a matter for debate: that the difference in tax paid exists is a fact.

[31] The proverbial problem of the old person living in a valuable property but who has almost no income does not change this argument: it is always possible for taxes on wealth to be rolled up until death in such cases with a modest interest charge perhaps being applied. This is no more than a form of equity release arrangement and would be easy to deliver to overcome this issue.

The obvious question that then arises refers to who might pay this additional tax. To look at this issue earnings by decile[32] as reported by HM Revenue & Customs for 2019/20 have been matched with the likely allocation of the average wealth increase as noted above in that same year, assuming that the wealth increase is apportioned by decile in the same proportion as wealth holding by decile[33].

This results in the following apportionment of the income and wealth increases by decile:

Table 5 Average UK income of taxpayers and wealth increase of taxpayers per decile 2019-20

Decile	Average income within the decile 2019/20	Average wealth increase based on average wealth holding by decile	Total likely average increase in financial wellbeing in 2019/20 by decile
	£	£	£
1 (Lowest)	13,920	118	14,038
2	16,360	979	17,339
3	18,770	2,518	21,288
4	21,400	5,137	26,537
5	24,470	8,338	32,808
6	28,190	12,121	40,311
7	33,020	16,940	49,960
8	39,800	23,797	63,597
9	50,520	35,550	86,070
10	84,730	83,068	167,798

Those in the lower income deciles benefit very little from the increase in wealth in society at large: those in the highest income decile were however, likely to have seen their wealth increase by almost as much as their income in 2019/20.

The tax paid by decile has then to be considered. There are complications in doing so. Data on actual tax paid is only readily available by decile for income tax, and is notoriously misleading, as this table shows:

[32] A decile is simply one tenth of the population being studied: in this case there are 31.4 million taxpayers in 2019/20 and so there are likely to be a little over three million people in each decile.

[33] An assumption is made that the deciles for the two measures coincide: this is considered sufficiently plausible to be a reasonable assumption to make.

Table 6 UK income tax liability per taxpayer by decile 2019-20

Decile	Average income within the decile 2019/20	Expected income tax on income	Expected actual income tax rate	Cumulative proportion of income tax paid
	£	£	%	%
1 (Lowest)	13,920	240	1.7%	0.5%
2	16,360	660	4.0%	2.0%
3	18,770	1,090	5.8%	4.3%
4	21,400	1,630	7.6%	7.9%
5	24,470	2,190	8.9%	12.6%
6	28,190	2,860	10.1%	18.8%
7	33,020	3,750	11.4%	27.0%
8	39,800	4,950	12.4%	37.7%
9	50,520	7,030	13.9%	53.0%
10	84,730	21,640	25.5%	100.0%

It is easy to see how it can be suggested that the top ten per cent of income earners in the UK bear most of its taxes based upon this data, but the impression is in fact misleading because income tax is but one tax out of many that are paid in the UK.

For this reason, estimated overall effective tax rates per decile based on Office for National Statistics data for 2019/20 have been used to estimate actually tax liabilities paid out of income by decile[34]. Using this data as the most reliable available, the following estimated overall tax liabilities on income and wealth by decile can be estimated. The wealth tax due is estimated at the overall average rate of tax per annum of 3.4% previously noted, without allowing for the fact that many in lower deciles would appear to have increases in wealth lower than capital gains tax allowances, for example. This might overstate the tax that they actually pay, albeit only slightly given the sums involved.

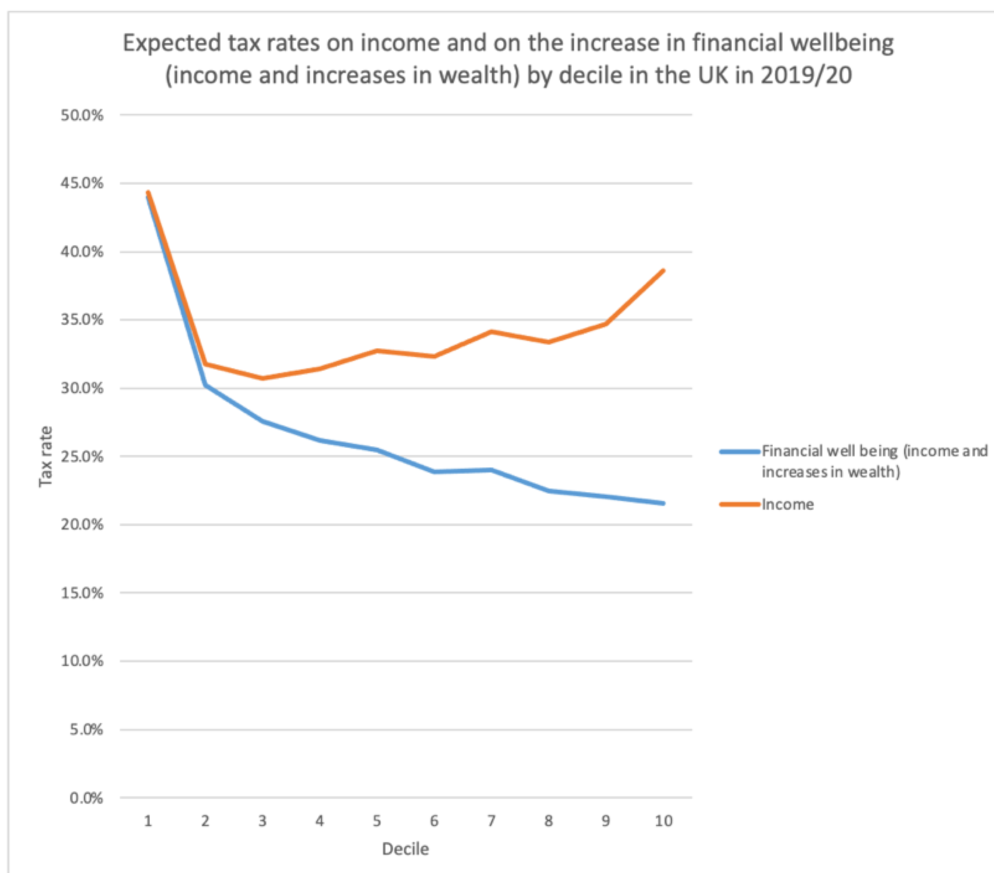
[34] It should be noted that because of slight statistical inconsistencies in the bases of estimation the overall tax rates estimated by the ONS are slightly higher than those previously noted here, but the impact is broadly equal across the range of all incomes.

Table 7 UK tax paid on income and wealth and the two combined by taxpayers by decile 2019-20

Decile	Average income within the decile	Average wealth increase based on average wealth holding by decile	Total likely average increase in financial wellbeing in 2019/20 by decile	Effective tax rate on gross income for the decile based on ONS data for 2019/20	Expected total taxes paid out of income	Expected tax on wealth	Expected total taxes	Expected tax rate on increase in financial wellbeing
	£	£	£	%	£	£	£	%
1 (Lowest)	13,920	118	14,038	44.3%	6,173	5	6,178	44.0%
2	16,360	979	17,339	31.8%	5,197	40	5,238	30.2%
3	18,770	2,518	21,288	30.7%	5,763	104	5,867	27.6%
4	21,400	5,137	26,537	31.4%	6,726	212	6,938	26.1%
5	24,470	8,338	32,808	32.8%	8,017	345	8,361	25.5%
6	28,190	12,121	40,311	32.3%	9,110	501	9,611	23.8%
7	33,020	16,940	49,960	34.2%	11,278	700	11,978	24.0%
8	39,800	23,797	63,597	33.4%	13,292	984	14,276	22.4%
9	50,520	35,550	86,070	34.7%	17,521	1,470	18,990	22.1%
10	84,730	83,068	167,798	38.6%	32,693	3,434	36,127	21.5%

The expected overall rate of tax on financial wellbeing in 2019/20 by decile, with the rate on income shown for the sake of comparison, was in that case:

Chart 1 UK expected effective tax rate for income taxes and income taxes and wealth increases when combined in 2019-20



Overall, the effective rate of tax on increases in financial wellbeing in the UK declines steadily as that financial wellbeing increases. The UK tax system is in that case deeply regressive.

In contrast, with regard to income the system is regressive at lower levels of income and is then broadly flat in middle income ranges, with rising rates returning for the highest decile who do, however, enjoy lower rates of tax paid out of income overall than some on much lower incomes.

This inequality is not just apparent in itself. Two further dimensions are important, one relating to gender inequality and the other to intergenerational inequality.

As the Women's Budget Group has noted[35], on average women own £101,000 less wealth than men and on average men have £51,000 more pension savings than women do. The distribution of income from savings also suggests that women have many fewer financial assets than men.

As Tax Justice UK has noted[36], in the tax year 2016-17, 614,000 people in the UK received over £100,000 in income from either property, interest, dividends or other investments, totalling £24.5bn, a little over 75 per cent of this was enjoyed by men, suggesting substantial gender inequality in financial wealth distribution. It is likely as a result that men pay lower overall effective rates of tax than women, exacerbating the inequality that already exists.

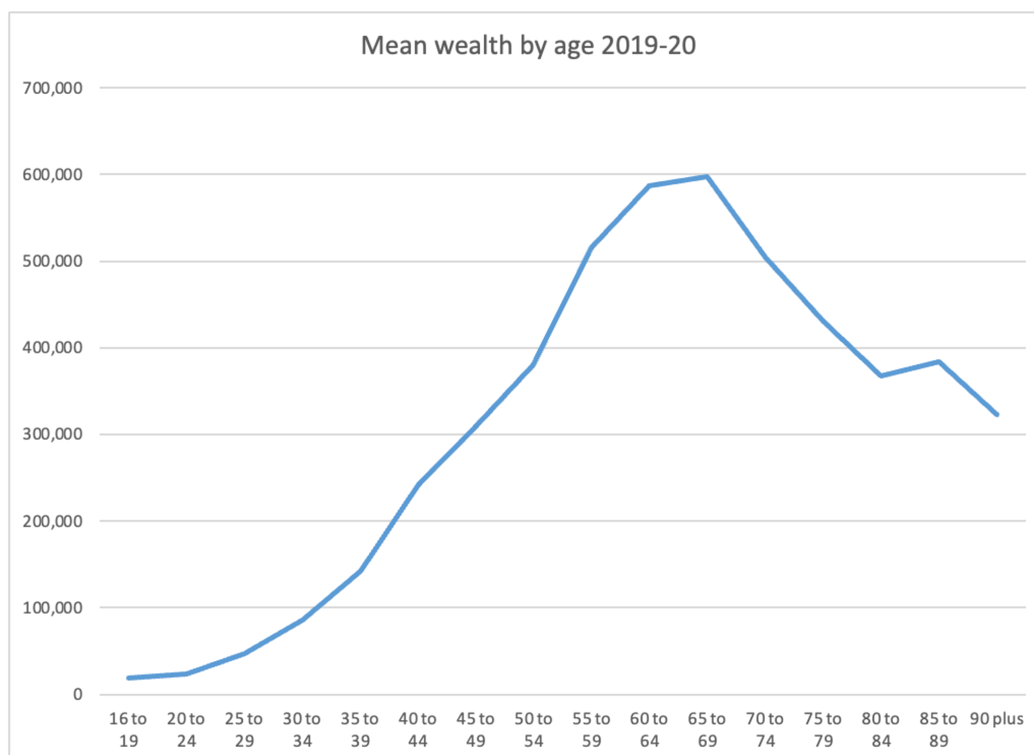
The intergenerational dimension of this has also to be considered. Based on 2019/20 wealth data the Office for National Statistics has estimated that mean wealth holdings by age of owner are as follows in the UK[37]:

[35] https://wbg.org.uk/analysis/why-wealth-tax-is-a-feminist-issue/#:~:text=The%20under%2Dtaxation%20of%20wealth,ripple%20effect%20on%20private%20pensions.

[36] https://www.taxjustice.uk/uploads/1/0/0/3/100363766/wealth_tax_and_gender_-_final_paper.docx.pdf

[37]

Chart 2 UK wealth by age of the owner 2019-20



Given this heavily skewed distribution it is likely that tax rates not only fall with increasing income and wealth but that they also fall steadily with age.

Conclusion

All estimates of the sort noted in the report are only as good as the underlying data permits, but it should be noted that the sources used in this report are the best currently available and are almost entirely drawn from official UK government data.

In addition, it should be noted that nothing about the use of that data in this report is of an unexpected, or unreasonable nature.

Furthermore, the suggestion made that increases in financial wealth are equivalent for the purposes of appraising well-being to the receipt of income by the wealth owner is considered appropriate and fair. That these two sources of well-being can be equated is a concept widely recognised in accounting theory and practice, for example, where all sources of financial gain are treated as having equal significance, whatever their origin.

The result is that some almost inevitable conclusions arise from the observations noted.

The first is that there have been quite exceptional increases in wealth in the period reviewed: the wealth increase in the period reviewed was 33.8% of all income recorded within GDP during the same years.

Secondly, given this disproportionate increase it is exceptionally unlikely that the increases in wealth in this period did all arise from what are conventionally called savings. Other factors must have influenced the increase in wealth, of which by far the most significant was the impact of government support for financial markets during this period as a result of its quantitative easing programmes. In addition, the support provided by the government to banks as a result of guaranteeing the deposits of many of those who held accounts with them sustained the wealth of many.

Thirdly, the tax subsidy the government provided for many savings arrangements such as ISAs and pension funds, all if which gave rise to multiplier effects in savings markets, are also likely to have increased wealth disproportionately. It can inevitably be concluded as a result that the owners of wealth have during the course of this period enjoyed the advantage of considerable financial support from the government that has greatly increased their financial wellbeing.

Fourthly, as has been noted throughout this report, this increase in wellbeing has not been evenly distributed throughout society. The owners of wealth also tend to be those with higher earnings, and both tend to be concentrated in a small part of society as a whole. They also tend to be older than average within the population as a whole whilst men will also be disproportionately represented amongst their number.

Fifthly, the perverse consequence of this subsidy is that the best off in the UK have enjoyed considerably lower overall effective tax rates on their increases in financial wellbeing over the last decade than have those with lower income and wealth.

Despite this it does not follow that increases in wealth should necessarily be taxed in the same way as income is. As is apparent from the nature of the wealth portfolios that have been noted, it has in particular been a consistent policy of successive governments of different political persuasions over long periods of time to subsidise the value of homes and pensions through the tax system. This is unlikely to change in the foreseeable future.

In that case what is required now is that the relationship between the tax systems on income and wealth be reimagined. If, as is likely in the case of a person with already adequate income, an increase in wealth contributes either as much or almost as much an increase to their wellbeing as an increase in income might do (which assumption is discussed in an appendix to this chapter) then it is apparent that the current tax system is heavily biased towards those

who are already well off. The precise degree of bias is not very relevant: the bias is so large at present that it very clearly exists.

Three things then follow from that observation. The first is that this disparity needs to be addressed to ensure that a fairer society is created.

Second, this issue has to be addressed because the subsidy given to saving is resulting in the withdrawal of large sums of money from the productive economy of the UK without any matching increase in investment taking place. That is because savings in housing, most of which is not new, or shares, most of which do not represent new share issues used to fund new corporate investment, or in commercial property, most of which is not newly constructed, might make sense to City based fund managers but they rarely provide new money for actual investment that creates new activity or employment in the UK economy. As a result, these subsidies to savers, most of whom are already wealthy, actually suppress growth at present, resulting in a loss of economic wellbeing to most people.

Third, if inequality is to be addressed a large part of any increase in taxes on wealth and income streams derived from it should be matched by reductions in the taxes paid by those on lower incomes to accelerate the process of creating equality and wider wellbeing within our economy as a whole, which will overall provide a significant boost to GDP as those on lower incomes tend to spend all that they earn, creating significant economic multiplier effects as a consequence.

Whether or not £170 billion of additional tax could be raised for redistribution as a result (as this chapter suggests might be theoretically plausible) is not the point. What does matter is that the inequalities that the existing system of providing subsidies to savings through the tax system be addressed for the wellbeing of society as a whole.

Appendix - Technical discussion on equating income and increases in wealth

In case of doubt as to the relevance of the approach used in this note, where increases in wealth in a period have been treated as being equivalent to the receipt of income in that same period, it is important to note that it is entirely consistent with the method of recording profit in UK and under international accounting standards.

The primary method of computing the income of any entity using these standards is to compare the net worth of a company at the end of a period (£A) with the net worth of that same company at the beginning of the period (£B) having allowed for sums withdrawn from the entity during the period by its owners, whether by way of dividend, share buyback or other means (£C), and the issue of new shares or other equity (£D).

In other words, profit (£Y) is calculated as:

£Y = £A - £B + £C - £D

This may come as a surprise to those who presume that the income of an entity during a period is the figure included as net profit after tax in the profit and loss account or income statement of the entity in question (£E). This is not the case. The movement in the value of the balance sheet at the end of a period (£A) is, instead, reconciled with the value at the beginning of the period (£B) by publication of three separate statements:

The income statement (or profit and loss account, as some might know it), which estimates the net sum earned from trading, having allowed for tax during the course of the period (£E).

The statement of comprehensive income for the period, which recognises the change in the market value of the assets and liabilities of the enterprise during the course of the period when stated at fair market value at both the opening and closing dates, some of which movements may be taxable. (£F)

A statement of the change in equity arising during the course of the year, which explains the sums withdrawn from the entity during the period by its owners, whether by way of dividend, share buyback or other means (£C), and the issue of new shares or other equity (£D).

As a result, and given that the changes in equity have already been included in the calculation noted above, earnings (£Y) can also be stated as:

£Y = £E + £F

To translate this to the context of this note, the earnings a person has during a period broadly equate to the earnings a trading entity records in its income statement (£E). It is this figure that most think represents their total income in the year. This idea is also implicit in most tax systems, largely because almost all of our taxes were created before modern theories of income and accounting were created.

This idea of income is, however, wrong: a person's total income in a period is their increase in net worth having allowed for what they have consumed and should therefore also include the change in the fair value of the assets that they own and sums that they owe during the course of period, as is reflected in modern accounting (£F). In that case the inclusion of the change in a person's net asset value during a period in income for determining effective tax rates as done in this note is not just appropriate, but theoretically required by accounting practice and the economic theory that it is based upon.

Chapter 4

Why we do not need a wealth tax in the UK

Many organisations on the left of UK politics are now calling for wealth taxes. The Taxing Wealth Report 2024 does not do so. It is appropriate to explain why that is the case.

As the Taxing Wealth Report 2024 has shown, because of the disparity between the tax rates applied to income and increases in wealth arising in each year it is possible that an additional capacity to tax of up to £170 billion per annum might be available in the UK. However, just because a potential tax base exists does not mean that it should be taxed. Nor does it mean that the tax base in question must be taxed in only one way.

It is my suggestion that it would not be wise or appropriate to introduce a wealth tax in the UK at this point in time. There are a number of reasons for saying so.

Firstly, whilst it is reported that there was personal wealth exceeding £15 trillion in the UK at the time that the last estimate was prepared in 2020 it is quite clear that a significant part of this might be unavailable as the basis for a wealth tax. The breakdown at that time was as follows:

	Total wealth 2020 £'billion
Property Wealth (net)	5,458
Financial Wealth (net)	1,933
Physical Wealth	1,385
Private Pension Wealth	6,445
Total Wealth (including Private Pension Wealth)	15,221
Total Wealth (excluding Private Pension Wealth)	8,776

Much of the UK's property wealth is tied up in private housing and there would be considerable political resistance to imposing a wealth tax charge on people's home, as past evidence has indicated. Whilst it is undeniable that some of that wealth is also second homes, buy-to-let property portfolios, commercial property, and land used for commercial and non-commercial purposes, and all of these might logically be within the basis for a wealth tax, this does not eliminate all the problems of imposing such a charge. There may well, in fact, be considerable difficulty in doing so, because of:

1. Establishing who owns a property, since by no means all land and buildings are registered within the UK.
2. Valuing these properties when those valuations might be deeply subjective in many cases, and therefore open to considerable (and costly) dispute.
3. Establishing a basis for re-evaluation of property values on a recurring basis to ensure that a tax remained relevant. In this context, it should be noted that property valuations for the purposes of Council Tax in England have not been updated since 1992, precisely because of this difficulty.

It would be a brave government that took on these issues. To do so, thinking that the basis for a wealth tax on property could be established within the lifetime of a single parliament, would be wildly optimistic.

Property is not the only area where such difficulties might arise. For example, whilst most physical property would fall outside the scope of a wealth tax because it comprises household effects and things such as cars, there are inevitable exceptions to this rule, including valuable collections, works of art, and so on, all of which could, in theory, be subject to wealth taxation. However, once again, establishing a basis for taxation for such assets and updating it on a regular basis would be exceptionally difficult.

The same problem is to be found with regard to financial wealth. Of the total sum of such wealth noted, it is very unlikely that any government would be willing to impose a wealth tax charge on savings in pension funds. Included in the sum of £1.9 trillion of financial wealth outside such funds is at least £600 billion saved in ISA accounts. It is, again, unlikely that any government would be willing to impose a wealth tax charge on these texts incentivised accounts. This leaves approximately £1.3 trillion of other financial wealth but by no means all of this will be saved in readily marketable assets. Some will, for example, be tied up in the value of private companies and businesses. These are notoriously difficult to value with such valuation exercises often being the subject of protected negotiation and dispute between taxpayers and HM Revenue and Customs, which the imposition of a wealth tax would only make it worse.

Taking all these factors into account it has to, firstly, be concluded that the potential basis for a wealth tax charge is much lower than the total financial wealth of people resident in the UK.

Secondly, it should be apparent that providing an adequate legislative base for such a tax charge would be extremely difficult without creating significant opportunities for loopholes to be exploited.

Thirdly, taking into consideration the need for consultations on all stages of this process, the time required to create such a tax would be considerable.

Fourthly, even if all these processes could be concluded, there would then be a considerable cost to administering this tax because of the inevitable high level of disputes that would arise as to the basis of charge to be made. The fact that those subject to this tax would also, most likely, have the means to engage accountants and lawyers to assist them in pursuing these disputes only increases the likely potential cost of collecting any tax owing.

For all these reasons, it is inappropriate for practical reasons to impose a wealth tax in the UK however appealing such an idea might be when considering the gross inequalities that exist within the country and the apparent disparities in tax paid that we note do arise on a persistent basis.

This does not, however, mean that there are no available taxation solutions to tackling the issues that the Taxing Wealth Report 2024 has noted arise as a consequence of the disparity between the tax rates now paid on income arising during a period and the average increase in wealth of UK households accruing during the same period. What that report suggests in place of a wealth tax are a wide range of reforms to existing taxes payable either on high levels of income, or upon income arising from wealth, or on the enjoyment of certain types of wealth. The breadth of these reforms is potentially quite significant, and include:

- Aligning capital gains tax and income tax rates.
- Reducing the capital gains tax annual allowance.
- Abolishing entrepreneur's relief in capital gains tax.
- Reforming inheritance tax.
    - Pensions
    - Business property
    - Agricultural property
    - Charities

    - Houses
    - Rates

- Reforming rates of income tax.

- Reforming national insurance charges on higher levels of earned income.

- Creating an investment income surcharge on unearned incomes.

- Restricting pension tax reliefs to the basic rate of income tax.

- Abolishing higher rate tax relief on gifts to charities.

- Abolishing the domicile rule.

- Reforming VAT to change tax rates on:

    - Private school fees
    - Financial advice

- Creating close company corporation tax rules.

- Companies House reform

- Reforming corporation tax admin

- Recreating large and small company corporation tax rates.

- Capping total ISA contributions.

- Council tax reform, including:

    - Higher rates of tax for high-value properties
    - Additional rates of tax on second and subsequent properties
    - Additional taxes on vacant properties.

These reforms are of varying complexity. Some, such as the alignment of income tax and capital gains tax rates, would be easy to implement and have historical precedent. This is also true for investment income surcharges and close company rules for corporation tax, for both of which there are precedents that create significant knowledge bases that would assist the

recreation of these charges. In the case of all the potential reforms of this type the creation of new charges should be a relatively straightforward matter, capable of implementation without significant time delays or the creation of substantial taxation disputes. This is the common characteristic to almost all these proposals: they are easy to deliver.

Importantly, however, because of the wide range of options available, it is obvious that not all these changes need to be implemented at the same time, and a rolling programme of reform could, instead, be undertaken. Critically, this suggests that the net outcome of this programme of reform would be significantly more successful than any attempt to impose a single wealth tax.

I offer an analogy by way of explanation. As any golfer knows, setting out to play a round of golf with just one club, whatever it might be, would result in a disastrous score. Golfers take a wide range of clubs because when doing so they have the range of tools necessary to address the wide range of scenarios that they will face whilst completing a game. I suggest that having a single wealth tax would be equivalent to playing a round of golf with, for example, a putter. Having the range of tax reforms proposed in the Taxing Wealth Report 2024 might instead be the equivalent to setting off with fourteen clubs in the golfer's bag, which considerably increases the chance of achieving a good score. So it is with taxation. Having a wide range of taxes imposed at relatively low rates on relatively easy to identify tax bases is likely to produce an overall taxation yield greater than a single tax on a peculiar tax base might ever achieve. It is on the basis of this logic that the Taxing Wealth Report 2024 has been written. Reforming existing taxes can achieve so much more than a wealth tax might.

A web version of this summary is available here:

https://taxingwealth.uk/2023/12/04/why-we-do-not-need-a-wealth-tax-but-need-to-tax-the-income-earned-from-wealth-a-great-deal-more/

Chapter 5

How the Taxing Wealth Report 2024's recommendation might be used

The Taxing Wealth Report 2024 includes more than 30 detailed recommendations for the reform of individual UK taxes as well as a whole range of recommended reforms of the management of that system as a whole. Every major tax is subject to at least one recommendation and some, like income tax, capital gains tax, inheritance tax, and corporation tax, are all subject to a range of recommended changes.

The purpose of the Taxing Wealth Report 2024 is to recommend tax reforms that would, in themselves, improve the functioning of the UK tax system if that system is to be considered a public good[38]. As a consequence, a government with concern for inequality in the UK might well wish to adopt many of the recommendations made in the Taxing Wealth Report 2024 not because they wish to use the funds that might be generated for revenue purposes, but because they wished to redistribute the incidence[39] of the tax burden in the UK so that those with the greatest capacity to pay have the highest overall tax demands imposed upon them as a progressive tax system would require. As the Taxing Wealth Report 2024 demonstrates, the UK tax system is a very long way from doing this at present[40].

It would also be possible for a UK government that wished to raise additional taxes to match additional spending that it might incur to improve the quality of public services currently available in the UK by taking advantage of the detailed tax recommendations made in the Taxing Wealth Report 2024. There is broadly based public demand that this might happen.

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[38] Public goods are a supply of goods (sometimes) and services (more commonly) that are provided without the intention of profit being made to all members of society, usually by a government, but also possibly by a private sector organisation.

[39] The term 'tax incidence' is used to describe who actually bears the economic cost of a tax. In this case the reference is to whom in the income strata of the UK is making contribution to the overall level of taxes paid in the country.

[40] https://taxingwealth.uk/2023/09/06/wealth-is-undertaxed-by-170-billion-a-year-in-the-uk/

The Taxing Wealth Report 2024 also suggests reforms to tax incentivised savings arrangements that might provide the capital for necessary long-term investment in the UK economy. Some of that investment might tackle the failing infrastructure in our public institutions, whether that infrastructure is in hospitals, schools, our transport and energy systems, or elsewhere. This additional capital might also fund clean water, flood defences and the necessary investment in the transition of the UK economy that we must make to become net–zero compliant by the legally required deadline of 2050.

The Taxing Wealth Report 2024 identifies tax reforms that could raise more than £90 billion of additional tax revenues a year. The proposed reforms to tax incentivised savings arrangements might assist the raising of more than £100 billion of capital for new infrastructure investment purposes per annum. Both these sums are significant. Together they amount to about eight per cent of UK national income, or gross domestic product (GDP) in 2024. Re-organising the use of human and material resources within the economy to make use of funding on this scale would take time, and it is, therefore, very unlikely that any government would wish to adopt all the recommendations made in the Taxing Wealth Report 2024 at one point in time, or potentially ever, as a result. It is actually possible that this much money might never be needed to effect the change that this country needs.

What this means is that the Taxing Wealth Report 2024 should be seen as a menu of options that any government could consider if it wished to achieve any of the three noted outcomes of redistribution, public service reform or capital investment for infrastructure noted above, or a combination of them. Given that many of the recommendations could, themselves, also be adopted in part as well as to the scale suggested in the Taxing Wealth Report 2024, that range of options available for consideration is very wide.

In that case, the Taxing Wealth Report 2024 should be seen as a way of encouraging debate on the ways in which the funding of the UK government and its infrastructure programmes might be changed to meet the social, political, economic, and environmental objectives of the 21st century. It puts options on the table. It is up to others to decide whether they wish to make use to them.

That said, the Taxing Wealth Report 2024 is intended to put an end to the claim that 'there is no money left' to fund programs that any UK government might wish to pursue. It is suggested that it succeeds in that goal.

It also, quite deliberately, is intended to provide the ammunition that politicians need when they are asked by journalists ''How will you pay for that proposal?' The Taxing Wealth Report 2024 makes it very clear that there is money left, and that any politician who wants to explain how they can fund their spending proposals has a very wide range of options available to them to answer that question. If, as a consequence, The Taxing Wealth Report 2024 broadens

the basis for debate on the future supply of government services in the UK, then it will have achieved its goal.

Chapter 6

Income Tax - Introduction

Background to income tax

Income tax is the biggest revenue raise in the UK tax system and has been for most of the last two centuries[41].

In the tax year 2022/23, which is the most recent for which there is confirmed data at the time of writing, income tax raised £250.2 billion of revenue[42]. This represented 27.8 per cent of total UK tax revenues in the year. Of this sum £212 billion (84.7 per cent) was collected via the Pay-As-You-Earn method of deducting income tax from employees working in the UK. The rest was collected on other sources of income subject to this tax via the self-assessment tax return system.

What is subject to income tax?

Income tax is charged on almost all sources of income arising to a UK resident person unless that income is:

- Subject to corporation tax because it is received by company.
- Subject to capital gains tax.
- Exempted from tax e.g. it is interest paid on an ISA (Individual Savings Account) or some forms of state benefit that are considered non-taxable.

This means that the following sources of income are subject to this tax, but please note that because of the comprehensive nature of income tax the list is not exclusive:

- Income from employment.

[41] Income tax was first introduced in 1799 and has been a persistent feature of the UK tax system since 1842, but due to historical anachronisms is technically reintroduced each year.

[42] https:/obr.uk/download/economic-and-fiscal-outlook-november-2023/?tmstv=1702908969

- Benefits in kind arising as a consequence of employment e.g. the benefit of being provided with a company car.
- Profits arising from self-employment.
- Rents if received personally.
- Income from savings and investments, including:
    - Interest
    - Dividends
    - Royalties
- Payments from estates.
- Distributions from trusts.
-
- Pensions, including:
    - The UK state pension.
    - Private pensions.
- Some, but not all, state benefits.
- The income of MPs.
- The income of ministers of religion.
- The salaries of company directors.

Problems with the UK income tax system

Every UK tax has some design deficiencies inherent within it. Income tax is no exception to this rule. The most important problems with UK income tax are:

1. The largest part of income tax, by far, is settled through the pay-as-you-earn (PAYE) system of tax deduction at source from employees. 84.7 per cent of income tax is paid in this way.

In contrast, the tax due on most of the above noted sources of income can only be charged to tax if those persons in receipt of that income make declaration of it on their self-assessment tax return. There is substantial evidence that very large numbers of people do not make declarations of all their income subject to income tax. HMRC estimate that 18.4 per cent of tax owed by self-employed persons might not be paid, for example (although that is better than their estimate for small companies, which they estimate do not pay 29.3 per cent of their tax owing)[43].

The scale of under the declaration is likely to be significantly underestimated by the UK's HMRC when preparing its estimate of tax gaps (see a separate note in this report regarding tax administration on this issue[44] and the section on reforming HMRC[45]). Until measures to both properly appraise, and then address the tax gap, which will be assisted by proper tax spillover analysis[46], are put in place this tax remains subject to the risk of significant abuse.

2. Income tax is, supposedly, the most progressive of UK taxes, but as is noted in this section of the Taxing Wealth Report 2024, significant relief and allowances reduce this progressivity, substantially cutting the tax liabilities of those who would otherwise pay higher rates of income tax. The economic benefits of granting these relief and allowances are not clear. The appraisal of the effectiveness of these reliefs could be a task for an Office for Tax Responsibility (see a separate section in the Tax Administration chapter).

3. The UK's income tax is substantially undermined by both its capital gains tax and corporation tax. This is because both those taxes provide opportunities for those with significant income or wealth to structure their tax affairs in ways that can significantly reduce the overall tax liabilities when compared to those that might be due if income tax was paid on all their income. For that reason, proposals are made to address these issues within this chapter.

4. Income tax is not the only tax charge due on income from employment and self-employment in the UK. National insurance is also payable on income rising from those sources. However, and problematically, national insurance is not paid on the other

[43] https://www.gov.uk/government/statistics/measuring-tax-gaps/1-tax-gaps-summary
[44] https://taxingwealth.uk/2023/09/19/the-taxing-wealth-report-2024-the-uk-needs-better-estimation-of-its-tax-gap-to-prevent-the-illicit-accumulation-of-wealth-2/
[45] https://taxingwealth.uk/2024/02/29/reforming-the-organisation-goals-and-funding-of-hm-revenue-customs/
[46] https://taxingwealth.uk/2023/09/29/the-uk-needs-to-undertake-tax-spillover-assessments-if-tax-abuse-is-to-be-beaten/

sources of income on which income tax is payable. This creates a considerable bias in favour of unearned income within the UK tax system. A recommendation to address these issues is included in this chapter.

5. Finally, there are serious problems arising with regard to tax and other liabilities owing on income within the UK tax system at present, where piecemeal, and often ad hoc, adjustments have been made to the tax system over time, particularly as they affect those with higher income. Those involving the withdrawal of various tax allowances are particularly. In addition, in combination the proposals made in the Taxing Wealth Report 2024 might create unfair tax rates on those earning between £50,000 and £75,000 per annum in the UK and a proposal for a reduced income tax rate over this income range is made as a result which would restore an appropriate balance to the proposed tax system. In the interest of tax justice, and to ensure that the other proposals made in this chapter are fair, these anomalies need to be eliminated from the tax system. Recommendations to achieve this outcome are noted. As is also noted these changes, which should only be considered if the other recommendations in the Taxing Wealth Report 2024 are implemented, would have a combined cost of £19.1 billion per annum.

The extensive proposals made in this part of the Taxing Wealth Report 2024 are designed to tackle the above noted issues. Between them they might raise £39.5 billion of additional tax revenues a year, albeit that in total reliefs of £19.1 billi0on are then recommended. This is why they are so important.

Future of income tax

The Taxing Wealth Report 2024 concerns itself with those pragmatic reforms to the UK tax system that might be undertaken by a government during the course of a single parliament. Given the number of recommendations made, the report does not suggest fundamental reform to the UK tax system as a whole. It should, however, be noted that there have been proposals made over many years to combine the income tax and national insurance systems. This report does not make comment on that proposal but does note that there are significant problems in doing so.

Merging these taxes (because national insurance is a tax) would create very high marginal tax rates on occasion, which might be harmful to tax morale. Such a proposal would also make the UK an outlier within international tax, where social security contributions tend to be more significant in comparable states than they are in the UK. UK income tax rates might then appear unattractive internationally as a consequence of this if this proposal were to be adopted.

The integration of income tax and employee's national insurance does also not overcome the fact that employer's national insurance contributes substantial revenue to HM Treasury each year (£103 billion in 2022/23[47]), and this contribution would either have to continue, or be replaced by another tax if there was an intention to eliminate national insurance as a whole.

These are issues that will need to be addressed in the future.

[47] https://assets.publishing.service.gov.uk/media/655af971544aea0019fb2fc9/NS_Table_workbook.xlsx

Chapter 6.1

Income tax – Recommendation 1 Restricting pension tax relief to the basic rate of income tax

Brief summary

This chapter suggests that:

1. The higher rates of tax relief on pension contributions made by those who are 40 per cent and 45 per cent taxpayers in the UK are inappropriate. Everyone should get tax relief on their pension contributions at the same rate of 20% that is now made available to basic rate taxpayers.

2. All such higher rate tax reliefs be abolished with some restriction on associated national insurance reliefs also being made.

3. As a result, £12.5 billion of tax reliefs might be withdrawn each year, plus maybe £2 billion of national insurance reliefs. As a result that much additional tax will be paid.

4. If this recommendation is adopted the cost of tax reliefs on pension contributions made by higher rate taxpayers in UK might still amount to approximately £24 billion a year, or £5,450 a year each, compared to approximately £8,750 a year each at present. The average basic rate taxpayer receives a subsidy of approximately £1,050 a year on their pension contributions at present.

5. Changing these reliefs will not seriously change the savings habits of the people impacted as pensions will remain by far the most attractive tax incentivised

savings arrangement available to them and more than eighty per cent of UK financial assets are held in tax incentivised savings arrangements.

The proposal	To restrict the rate of tax relief available on pension contributions to the basic rate of income tax, meaning that those on higher income will not enjoy additional tax relief as a result of the pension contributions that they make above the rate available to those paying tax at basic rate on similar sums. An additional suggestion is made to restrict national insurance tax relief on pension contributions for those earning in excess of £100,000 a year.
Reason for the proposal	1. To improve the horizontal equity[48] of taxation, which is currently undermined by the higher rate of tax relief enjoyed by those paying higher rates of income tax on the pension contributions that they make. 2. To increase the prospect of vertical equity[49] of taxation in the UK which is heavily undermined by the provision of higher rates of tax relief on pension contributions made by those liable to higher rates of income tax, which relief reduces their effective rate of tax paid by these people, impacting as a result on the progressive nature of the income tax system. 3. To reduce the tax spillover[50] effect that current rates of tax relief on pension contributions create within income tax rules.

[48] Horizontal tax equity requires that all incomes of similar amount be taxed the same sum irrespective of where that income comes from.
[49] Vertical tax equity requires that as a person's income increases, the amount of tax paid on it will always increase irrespective of its source, with a progressive tax system resulting as a consequence.
[50] Tax spillovers are the consequences of the interactions between different tax systems or different parts of the same tax system that can often (sometimes unintentionally) reduce tax revenues and the size of a tax base.

	4. To reduce the rate of tax avoidance[51] in the UK. 5. To consequently improve the rate of tax compliance[52] in the UK. 6. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation cannot be known, although it is likely to be small as pension arrangements will remain the most favourable tax incentivised savings arrangement in the UK even if these proposals were enacted. Assuming this to be the case then a sum of £12.5 billion of tax might be saved as a consequence of the proposal to restrict pension contribution tax relief to the basic rate whilst a further £2 billion or more of national insurance might be saved as a result of additional reforms.
Ease of implementation	Relatively straightforward. Tax relief at basic rate is already provided at source on many pension contributions. The changes to payroll and tax return systems that would be required would be quite straightforward. Changes to tax relief on national insurance contributions might be a little more complicated but the rules used for these contributions when made by company directors could easily be adapted for this purpose.
Likely difficulties that might result from implementation	Relatively few, although they will be politically unpopular.
Likely time required to implement the change	Months in the year preceding the year of actual change.

[51] Tax avoidance is the term given to the practice of seeking to minimise a tax bill without deliberate deception (which would be tax evasion or fraud). The practice may be summarised as 'seeking to get around the law'.
[52] Tax compliance is seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes.

Consultation period required.	Relatively short. It is likely that the changes might be made within twelve months of any proposal being made.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/06/ending-higher-rates-of-tax-relief-on-pension-contributions-would-raise-14-5-billion-in-tax-a-year/

Chapter 6.2

Income tax – Recommendation 2

Recreating an investment income surcharge on unearned income

Brief summary

This chapter suggests that:

- It is inequitable that those with unearned income in the UK do not make a contribution equivalent to national insurance at present.
- Such a contribution could be made by recreating the investment income surcharge that was included in the income tax system and which was applied to unearned income at a rate of 15% until 1984.
- This charge could also be extended to capital gains.
- This charge would be collected via a person's self-assessment tax return for each year.
- This charge would only be applied to investment income and gains (excluding pensions) exceeding £5,000 in a year. This sum takes into account the fact that almost all those paying would have already had the benefit of a national insurance allowance in the year. A higher ceiling could be set for pensioners.
- This charge would raise approximately £7.1 billion in tax each year if capital gains were not taken into consideration. This sum would increase to approximately £18 billion per annum if capital gains were taken into account.

The proposal	To charge those in receipt of unearned income (i.e. income from savings such as interest or dividends, or from other sources such as rents and from capital gains and trusts, but not pensions) above an agreed level to an investment income surcharge on that excess unearned income. That investment income surcharge would be at the rate of 15%. It is suggested that it would only be applied to investment income of above £5,000 per annum. This liability would be collected as part of the income tax liability of those due to pay it, usually though their self-assessment tax return. This sum would be due because unearned income is not at present subject to a national insurance charge when income earned from work and self-employment is.
Reason for the proposal	1. To improve the horizontal equity of taxation, which is currently seriously undermined by the differential between the tax rates due on earned and unearned income due to the absence of a national charge, or a charge equivalent to it, on unearned income. 2. To increase the prospect of vertical equity of taxation in the UK which the absence of this charge seriously undermines. 3. To reduce the tax spillover effect that the existing charge structures of national insurance create when compared to those charged under income tax rules. This has most especially been seen in tax planning designed to transform earned income into unearned income via the medium of limited liability companies and dividend payments to working shareholder / directors. 4. To help close the UK tax gap.

	5. To reduce the rate of tax avoidance in the UK. 6. To consequently improve the rate of tax compliance in the UK. 7. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this change is hard to predict, but since significant attempts have already been made by HM Revenue & Customs to reduce the rate of tax abuse via the use of limited liability companies it is likely to be smaller now than it might have been in the past. The inclusion of capital gains in the charge is vital if abuse via that tax is to be prevented. Some dividend and other payments to connected parties might be deferred as a result of this charge being introduced but the likelihood of this could be counter-acted via the use of close company apportionment rules (see separate recommendation). It is possible that such a charge might also defer the recognition of some capital gains. Overall, however, the impact on revenue is likely to be small and short term. The reality is that companies will still need to distribute dividends; that interest will still be paid on deposits and capital gains will be realised as a result of commercial transactions. Significant deferral of these in order to avoid a charge to this proposed investment income surcharge will, in that case, ultimately be hard to achieve. On investment income alone the yield from this charge would yield approximately £7.1 billion a year. If extended to capital gains that sum could exceed £18 billion per annum.
Ease of implementation	In essence this proposal is simple since such legislation has existed before. It was abolished in 1984. The principles are, therefore, known and could be revived.

	The equity of such a charge is obvious, making its passage easier. What is harder to predict is the scale of hostility any such proposal might create.
Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	Up to two years planning might be required for a change such as this, even though it previously existed in UK law.
Consultation period required.	A significant consultation exercise would be required with regard to this change to win acceptability for it.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/13/an-investment-income-surcharge-in-the-uk-could-raise-up-to-18-billion-of-extra-tax-revenue-a-year/

Chapter 6.3

Income tax – Recommendation 3

Capping the rate of tax relief on donations to charity to the basic rate of income tax

Brief summary

This chapter suggests that:

- The higher rate of tax relief on donations made to charity by those who pay higher rates of income tax in the UK should be abolished.
- The existing relief is inequitable: it is inappropriate that those who pay higher rates of tax should be provided with a higher rate of tax relief when the action giving rise to that relief are the same whether a person is a basic or higher rate taxpayer.
- It is inappropriate that the higher rate of tax relief provided to the higher rate taxpayer as a result of their donation to charity benefits them and not the charity they donated to.
- This relief might distort the behaviour of charities within society.
- Removing this relief might save £740 million a year, increasing tax revenues by that amount as a result.
- Evidence collected by HMRC suggests that this relief has relatively little impact on the behaviour of higher rate taxpayers, who appear no more likely to use it than basic rate taxpayers, and that the behavioural consequence of the removal of this relief might be limited as a result.

The proposal	To cut the rate of income tax relief on donations to charities by higher rate taxpayers so that they only enjoy

	relief at the basic rate of income tax, which is the rate of relief available to basic rate taxpayers.
Reason for the proposal	1. To improve the horizontal equity of taxation, which is currently undermined by higher rate tax relief that is available to those who gift to charity when only basic rate relief is available to a basic rate taxpayer. This issue is exacerbated by the fact that the taxpayer benefits from this higher rate relief: the charity does not. This adds to the inequitable impact of the relief. 2. To increase the prospect of vertical equity of taxation in the UK which is heavily dependent upon the creation of improved horizontal tax equity. 3. To reduce the tax spillover effect that existing rates of tax relief on donations to charity by higher rate income taxpayers create when compared to the relief available to those who are basic rate taxpayers. 4. To reduce the rate of tax abuse in the UK, some of which has been associated with the availability of this relief. 5. To consequently improve the rate of tax compliance in the UK. 6. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation cannot be known with certainty. What is known is that HM Revenue & Customs believe[53] that higher rate tax relief on gifts to charities under Gift Aid rules cost £740 million in the tax year 2022/23. The figure had increased from £480 million in 2014/25.

[53] https://www.gov.uk/government/statistics/uk-charity-tax-relief-statistics

	Basic rate tax relief costs £1,600 million (£1.6 billion), which figure is assumed to include the basic rate relief on the sums also subject to higher rate tax relief. It is assumed that the sum of £740 million will be saved by abolishing this relief as a result. HMRC is concerned that this relief is being abused at present and has opened a review on that issue[54]. It has also been found that numerous errors in making Gift Aid claims are being made by taxpayers. This change in the relief would reduce the cost of these[55].
Ease of implementation	Simple.
Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	Months in the year preceding the year of actual change.
Consultation period required	Short.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/14/capping-the-rate-at-which-tax-relief-is-given-on-charitable-donations-under-gift-aid-might-raise-740-million-in-tax-a-year/

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[54] https://www.gov.uk/government/consultations/charities-tax-compliance/consultation-charities-tax-compliance

[55] https://www.gov.uk/government/publications/charitable-giving-and-gift-aid-research

Chapter 6.4

Income tax – Recommendation 4

Imposing a lifetime limit on ISA contributions

Brief Summary

This chapter proposes that:

- The current limits on ISA contributions are not working and are creating opportunity for some to accumulate considerable wealth in the UK in a tax-free environment when that was never the intention with regard to these accounts.
- That the contribution limit to ISA accounts should now be stated as a lifetime limit of £100,000. Transfers between ISA accounts would be ignored for this purpose. Withdrawals would not, however, reset the limit. Those who have now contributed this sum would not be able to make further contributions to ISA accounts.
- That any income or gains on ISA accounts where aggregate balances now exceed £200,000 should be subject to income tax and capital gains tax. If sums held in ISA accounts are not reduced below this level in a reasonable time period then exemption on all such accounts should be lost by the person owning them.
- Given that ISAs were always meant to encourage those with limited means to save more these changes are entirely consistent with the original intention of those who introduced these accounts. The significant increase in contribution limits in recent years has subverted the supposed economic reasons for the existence of these accounts, which are now a simple subsidy to those with wealth and considerable sums to save.
- This recommendation might save £100 million in ISA tax reliefs a year.

The proposal	To impose a limit on the total contributions that a person can make to an ISA during their lifetime to £100,000 and

	to limit the benefit of ISA tax reliefs to funds not exceeding £200,000 saved within ISA accounts. ISAs are Individual Savings Accounts, as defined by law. They exempt the income and gains generated by the sums saved in them from charge to income tax and capital gains tax. Subscriptions are at present capped by annual limits.
Reason for the proposal	To improve the horizontal equity of taxation, which is currently undermined by the excessive use of ISA tax reliefs that mean too large a disparity in rates of tax paid on savings income and gains has now developed between taxpayers within the UK tax system. To increase the prospect of vertical equity of taxation in the UK which is heavily dependent upon the creation of improved horizontal tax equity, and which is undermined when the excessive use of ISA tax reliefs is permitted. To reduce the tax spillover effect that the excessive use of ISA tax reliefs has created. To raise additional tax revenues from those most able to make such payment.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation is likely to be limited. The number of people it will impact is relatively small. They will not stop saving because of this change in ISA tax reliefs.
Ease of implementation	Relatively straightforward, not least much lower limits for permissible savings in ISA accounts existed relatively recently. An estimate of £100 million, or £0.1 billion, of revenue raised from this change might be fair without having access to more detailed information held by HM Revenue & Customs. The proposal is made to improve the equity of

	the UK tax system and to indicate that tax reliefs must be targeted to be effective in achieving their goals.
Likely difficulties that might result from implementation	Few. Some small technical issues with identifying funds in existing ISA arrangements that exceed £200,000 in value might arise but otherwise HMRC has all the available data to make this new arrangement work since ISA account usage is already tracked by them.
Likely time required to implement the change	Months in the year preceding the year of actual change.
Consultation period required.	Short, because the issue is straightforward.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/20/the-taxing-wealth-report-2024-capping-isa-contributions-to-100000-in-a-lifetime/

Chapter 6.5

Income tax – Recommendation 5

Reintroducing close company rules for income and corporation tax

Brief Summary

This chapter proposes that close company rules be reintroduced into UK taxation. It should be required as a result that:

1. The income of all close companies with retained investment income and gains exceeding £50,000 should be required to distribute such sums to their members or they shall be deemed to have done so for income tax purposes.

2. The retained profits of all close trading companies in excess of £200,000 not demonstrably being used for the purposes of a trade shall likewise be required to be distributed to the members of that company or shall be deemed to be so for income tax purposes.

For these purposes a close company is defined as a company:

- under the control of:
  - five or fewer participators, or
  - any number of participators if those participators are directors.
- Or companies where more than half the assets of which would be distributed to five or fewer participators, or to participators who are directors, in the event of the winding up of the company.

A participator is usually a shareholder or director, although loan creditors can occasionally count if they have influence over a company.

<table>
<tr><td>The proposal</td><td>To reintroduce close company rules into UK taxation to prevent those able to do so from accumulating wealth subject only to the low tax rates charged on the income and gains of companies when those income and gains are not used for the purposes of a trade but are instead retained in a company for the purposes of avoiding taxes.

These rules would require that:

1. The income of all close companies with retained investment income and gains exceeding £50,000 should be required to distribute such sums to their members or they shall be deemed to have done so for income tax purposes.

2. The retained profits of all close trading companies in excess of £200,000 not demonstrably being used for the purposes of a trade shall likewise be required to be distributed to the members of that company or shall be deemed to be so for income tax purposes.</td></tr>
<tr><td>Reason for the proposal</td><td>1. To prevent one of the most common forms of tax avoidance by those with income and gains in excess of their need for current expenditure, which funds can be sheltered from tax by retaining them in lowly taxed private limited companies.

2. To improve the horizontal equity of the UK tax system by preventing the abuse of private limited companies that currently create a massive imbalance in that form of equity.

3. To increase vertical tax equity.

4. To reduce the incentive to avoid tax.

5. To reduce the tax spillover effect that private limited companies create</td></tr>
</table>

	6. To raise additional tax revenues in a more progressive fashion.
Estimated tax that might be raised as a result of the recommendation made	The behavioural responses to this recommendation cannot be known for certain, but it is bound to lead to a considerable increase in the rate of distribution of profits from many privately owned companies, and so to the overall tax rate of the shareholders of those entities. It will as a result have a favourable impact on horizontal and vertical tax equity as well as in decreasing inequality. Given the number of variables involved it is hard to estimate the sums likely to be distributed, but if only £10 billion was distributed a year as a result of this policy (and that would appear to be a modest estimate) the likely increase in tax yield might be more than £3 billion a year at current tax rates, and somewhat more at the rates of tax proposed in the Taxing Wealth Report 2024, especially if an investment income surcharge was taken into account.
Ease of implementation	The changes proposed will be easy to implement. No technical difficulties should arise because this is already known legislation.
Likely difficulties that might result from implementation	There is likely to be significant opposition to these changes but that is the only difficulty that should be anticipated.
Likely time required to implement the change	Capable of being delivered in any Finance Bill i.e. in a matter of months. At least twelve months notice of the change might, however, be beneficial with few tax risks arising.
Consultation period required.	It is likely that at least a year's notice of these changes would be required.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/11/03/taxing-wealth-report-2024-reintroducing-close-company-rules-for-income-and-corporation-tax-could-raise-at-least-3-billion-of-tax-a-year/

Chapter 6.6

Income tax – Recommendation 6

Abolishing the domicile rule for tax purposes

NB: This proposal was adopted by Chancellor Jeremy Hunt

in his budget in March 2024.

This proposal was first published during the autumn of 2023

Brief Summary

This chapter proposes that the use of the domicile rule for taxation purposes should be ended.

It is suggested that a temporary residence rule should be created in place of the domicile rule for those who come to the UK for a period of less than seven years.

The proposal is made to prevent people being able to secure a tax advantage based solely on their domicile being outside the UK and their ability to afford the fee to do so.

The proposal	To cease providing tax advantages to those who are tax resident in the UK but who can claim to be not domiciled in this country. To provide a temporary residence rule in place of the domicile rule for those who come to the UK for a period of less than seven years.
Reason for the proposal	1. To prevent people being able to secure a tax advantage based solely on their domicile being outside the UK and their ability to afford the fee to do so. 2. To improve the horizontal equity of the UK tax system by preventing the abuse that the use of

	domicile status for taxation purposes has permitted. 3. To increase vertical tax equity. 4. To reduce the incentive to avoid tax. 5. To reduce the tax spillover effects that the domicile rule has created, particularly with regard to the use of offshore tax arrangements. 6. To raise additional tax revenues in a more progressive fashion.
Estimated tax that might be raised as a result of the recommendation made	Academics at Warwick University and the LSE have estimated that abolition of the domicile rule for taxation purposes might raise £3.2 billion a year in additional tax revenue for the UK and this estimate is accepted here.
Ease of implementation	The changes proposed will be relatively easy to implement because the alternative basis of taxation is already well known. No technical difficulties should arise.
Likely difficulties that might result from implementation	There is likely to be significant opposition to these changes but that is the only difficulty that should be anticipated. They have broadly based political appeal.
Likely time required to implement the change	Capable of being delivered in any Finance Bill i.e. in a matter of months. However, at least twelve months' notice of the change might, be beneficial as this will require some people to change their tax arrangements and it is generally considered appropriate to allow time for them to do so.
Consultation period required.	It is likely that at least a year's notice of these changes would be required. The consultation period could be somewhat shorter.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/11/10/taxing-wealth-report-2024-abolishing-the-domicile-rule-for-tax-purposes-might-raise-3-2-billion-of-tax-revenue-a-year/

Chapter 6.7

Income tax – Recommendation 7

Changing UK tax rates

Brief Summary

This chapter suggests that:

- Although the Taxing Wealth Report 2024 has identified many anomalous tax rates reliefs and allowances within the UK tax system that are in need of correction where doing so will raise significant extra tax revenues, there are other tax allowances and reliefs that would also need to be addressed if the recommendations within the Taxing Wealth Report 2024 are adopted so that a tax system that is in overall terms just might be created in the UK.

- In the three cases highlighted in this chapter, correcting anomalous tax rates reliefs and allowances within the UK tax system might reduce overall tax revenues because those in use do, at present, create tax injustice at cost to those with higher income and wealth. It is not possible to promote tax justice without taking these issues into account, presuming that the other recommendations within the Taxing Wealth Report 2024 are adopted.

- The first of these issues relates to the High Income Child Benefit Charge (HICBC). This withdraws a claim for child benefit from any person living in the same household as the child in respect of which that claim is made if that person is earning between £50,000 and £60,000. The tax collected as a result is estimated to be £1 billion a year, but marginal tax rates exceeding 70 per cent can arise as a result, and in combination with the changes in the Taxing Wealth Report 2024 these would be unacceptable and as such this charge needs to be abolished.

- The second charge relates to the phasing out of the personal income tax allowance for persons earning between £100,000 and £125,140 a year, meaning that in that

range an additional 20 per cent tax charge arises. On top of the other changes recommended in the Taxing Wealth Report 2024 that would result in unacceptable tax rates that also defeat the desired steady progressiveness of the tax system and as such this charge should be abolished, but only if the other recommendations in the Taxing Wealth Report 2024 are accepted. The cost would be approximately £5.6 billion per annum.

- The third change would be to the income tax rate on earnings and gains totalling between £50,000 and £75,000. Again, this change is only recommended if the changes suggested in the Taxing Wealth Report 2024 are accepted as otherwise there would be no need to do so. If the tax rates on national insurance, capital gains and investment income recommended in the Taxing Wealth Report 2024 were accepted the overall tax rate on people earning between £50,000 and £75,000 would become too high if sufficient overall steady progressivity is to be achieved within the tax system. Subject in that case to those other recommended changes taking place it is suggested that the income tax rate in this range be reduced to 30 per cent from the current 40 per cent rate. This would have a cost of approximately £12.5 billion per annum.

- Without these changes it is likely that the Taxing Wealth Report 2024 would be inappropriately targeted: it is meant to target those with higher income and wealth and should not penalise most of those with earnings of between £50,000 and £75,000 a year as a result unless that income comes from capital gains or other unearned sources.

- The overall cost of recommendations made in this chapter is:

	Recommendation	£'bn
1	High Income Child Benefit Charge (HICBC)	1.0
2	Withdrawal of the individual personal income tax allowance	5.6
3	Reduction in tax rate between £50,000 and £75,000 a year	12.5
Total		19.1

Of these recommendations the first should happen irrespective of the other changes suggested in the Taxing Wealth Report 2024.

The other two suggestions are conditional on the other reforms proposed in the Taxing Wealth Report 2024 being made or tax injustice would result.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2024/02/08/the-taxing-wealth-report-removing-existing-anomalies-within-the-uk-system-that-prevent-the-delivery-of-tax-justice-might-cost-19-1-billion-per-annum/

Chapter 7.0

National Insurance – Introduction

Background

The UK's national insurance system was introduced at the beginning of the twentieth century at the time that the very first UK state pension was created. It was, however, transformed and expanded in the aftermath of the Second World War. The Labour government elected in 1945, promised the creation of a much-enhanced social safety net to those who had endured that war. The result was an improved state pension, unemployment and sick pay benefits and the creation of the National Health Service. These new commitments required that additional taxation be paid. The current form of contributory system of payment giving rise to an entitlement to benefits was created as a consequence.

This system of taxation was largely based upon payments made via a person's employer through what became known as the pay-as-you-earn (PAYE) system, which also applied to income tax due on employment income. Post 1945 this was particularly suited to the structure of UK society. For example, in the 1940s and for some time thereafter, most employees were male, which fact was heavily reflected within this new taxation system, which was overall prejudicial to women, and especially married ones. In addition, most people were employed, with self-employment being surprisingly rare at the time, and the vast majority of those employees stayed with their employer for long periods whilst having no other sources of untaxed income of any note, meaning that the PAYE taxation system was highly likely to capture most income within it and tax it appropriately.

As it developed, national insurance became payable in several ways:

1. **Class 1 national insurance** was payable by employees, but in two parts. Part was due by the employee themselves and was therefore seen by them on their payslip. In addition, a second part, which currently exceeds in total tax collected that part paid by employees, was paid by employers. Employees did not recognise this as a taxation liability paid on their behalf, even though most economists agree that the impact of this payment was to reduce the level of net wages paid in the UK economy.

2. **Class 2 national insurance** was a basic contribution paid by those who were self-employed. It entitled them to credit for a few of the benefits that employees enjoyed,

and in particular an old age pension. Unemployment and sickness benefits were generally excluded. This contribution was abolished in the autumn statement of 2023. Because in its early days those who are self-employed secured this benefit by purchasing stamps that were suck onto a contribution card that a self-employed person had to submit to tax authorities to prove their entitlement to benefits for a year this class of contribution was for a long time called "the stamp".

3. **Class 3 national insurance** contributions were a voluntary contribution paid by person not in employment who wished to preserve their entitlement to an old age pension.

4. **Class 4 contributions** were additional contributions made by a self-employed person depending upon the level of income that they earned. These were originally considered the equivalent of an employer contribution but have never been paid at a rate that brought the contribution made by the self-employed to anything like the level paid by employees. This was a situation defended on the basis that self-employed people had significantly reduced entitlement to benefits payable as part of the social security safety net.

Over the years a number of variations on the above basic charges have risen, including the creation of Class 1A national insurance contributions, which are payable by employees and employers on the value of their benefits in kind provided by an employer.

The significance of national insurance in the UK tax system

In 2022/23 national insurance raised a total of £176.9 billion of taxation revenue[56]. This made it the second largest UK tax, behind income tax but ahead of VAT. Of this sum just over £100 billion was paid by employers and the balance by employees and the self-employed. The significance of national insurance as a source of government revenue is not, as a result, as apparent as it might be to most of those who pay it.

The rates at which national insurance is paid

Since the majority of national insurance contribution payments are made by those who are employed, or their employers, the rates for these people payable under what is called class one national insurance are summarised here:

	2023-24		
	Weekly	Monthly	Yearly

[56] https://obr.uk/efo/economic-and-fiscal-outlook-november-2023/

Primary threshold	£242	£1,048	£12,570
Upper earnings limit	£967	£4,189	£50,270

The rates of tax payable are as follows:

	2023-24
Employees' main rate (payable between the primary threshold and the upper earnings limit)	12.0%
Employees' lower rate (payable on earnings above upper earnings limit)	2.0%
Employers' rate	13.8%

In practice, what this combination of rates and thresholds means is that an employee starts paying national insurance when they earn more than £242 a week (£12,570 a year). The contribution due is payable at 12% on the excess over that sum. However, the rate of national insurance rate due falls to 2% when weekly earnings exceed £967 per week (£50,270 a year).

These rates have, it should be noted, been co-ordinated with income tax rates for the first time in 2023-24. Income tax rates in that year are:

Personal allowances	2023-24	Cumulative bands
Personal allowance (PA)	£12,570	£12,570
Basic rate band:	£37,700	£50,270
Higher rate band:	£37,701-£125,140	£50271 to £137,710
Additional rate band:	£125,140 or more	In excess of £137,711

What is clear from comparing these tables is that:

1. When the income tax rate increases from 20% to 40% the national insurance rate on employees falls from 12% to 2%, mitigating that income tax increase for those in employment.

2. Whereas the income tax rate then increases again, albeit at significantly higher levels of income, the national insurance rate never does.

It is also worth noting that:

At no time is there a national insurance charge on anything but income from work. All other income is exempt from this change.

Problems with the UK's national insurance system

The UK national insurance system might have had merits in the era post-1945. It is, however, anachronistic in 2023. in particular:

1. The system has failed over time to reflect the changing role of women in society, and there have been some significant problems that have risen as a result.

2. Self-employment is now substantially more commonplace than it was in 1945.

3. People change employment much more often now than they did when national insurance was first introduced, and many people also have multiple employments, which the national insurance system is ill-equipped to handle.

4. National insurance is not charged on anything, but income from work, meaning that the overall rate of tax paid on income of work is much higher than the overall rate of tax paid on any other source of earnings, most of which are derived from wealth. This contributes significantly to the growing inequality of incomes and wealth in the UK.

5. National insurance ceases to be paid by an employee or self-employed person (but not by their employer) when that person reaches the state retirement age (66, at present), which makes little sense when many people now work beyond that age. This creates a distortion in the employment market.

6. The scale of the employer's national insurance contribution has encouraged many employers to treat their staff as self-employed, even when that is not the case, meaning that both the employer and the employee save national insurance cost as a result. This has seriously undermined the horizontal equity of the UK tax system. Much

of this false representation of employment status has also been akin to tax evasion activity that undermines the integrity of the tax system as a whole.

7. Many people claiming be self-employed have during the course of the current century created limited liability companies to record their income. They have paid themselves a minimal salary out of the profits that company has recorded as a result of charges it has made for the supply of their labour. This means that they have kept their national insurance record intact for benefit purposes. They have then paid themselves dividends out of those profits, seeking to avoid both employers' and employee's national insurance liabilities on the sums they claim to have converted into what tax law recognises as investment income and therefore outside the scope of a national insurance charge. There have been many attempts by HM Revenue and Customs to address this issue, but they have still found no proper solution. As a result, horizontal tax equity has been seriously distorted in such cases. The cost of this abuse has never been estimated by HM Revenue and Customs, which is one of the many deficiencies in its tax gap estimate. So widespread has the abuse been that many government departments have been guilty of engaging consultants on this basis.

8. In the long-term national insurance is a tax that clearly discourages the employment of people in the UK when the creation of full employment remains an objective for most governments. This tax creates wholly perverse economic disincentives that are implicit in its construction and design. When most benefits and pension payments to those in need are not now dependent upon having a complete contribution record this is particularly perverse.

9. The requirement that people have many decades of contribution record to automatically qualify for a state old age pension in the UK is deeply discriminatory in an era when the UK is already, and will increasingly become, dependent upon migrant workers to undertake significant roles within the UK economy.

Approach to tackling the issues that national insurance creates

The Taxing Wealth Report 2024 is not meant to be a programme for tackling every deficiency in the UK tax system. It is instead intended to suggest how taxation revenue might be increased from those with significant income and wealth who are resident in the UK. So significant are the immediate changes that are required for this purpose as noted in the Taxing Wealth Report 2024 that no attempt is being made to tackle more fundamental failures in some parts of the UK tax system. The weaknesses in the national insurance system fall into this second category. Whilst recognising many of the above note problems exist, the recommendations made in this section and others that are related to it are at best partial and

a fuller consideration of the future of the national insurance system will have to await further consideration.

Recommendations made

The following recommendations are made in this and other sections of this report to address some of the failings that the national insurance system has created and to create additional tax revenues as a result:

1. To charge national insurance at a single rate across all levels of income earned, abolishing the reduced rate that now applies on income over £50,270 per annum as a consequence. It is estimated that this might raise £12.5 billion in tax a year.

2. To create an investment income surcharge on incomes from investment income (including capital gains) of more than £5,000 a year. This sum, which would be charged as income tax, would be broadly equivalent to national insurance and would raise £18 billion a year. It would end much of the incentive to tax avoid with regard to national insurance noted previously.

These two changes would end two of the most egregious tax abuses built into the UK tax system at present and might raise more than £30 billion in revenue in the process.

Chapter 7.1

National Insurance – Recommendation 8

Reforming national insurance charges on higher levels of earned income.

Brief summary

This chapter suggests that:

- The reduced rate of employee's and self-employed person's national insurance contribution payable by those earning more than £50,270 per annum from either of these sources can no longer be justified when the pretence that national insurance contributions are specific payments made to provide insurance cover for specified risks is no longer tenable and this charge is now a tax like any other within the UK tax system.
- This reduced rate of tax seriously undermines the vertical equity of the UK tax system by being explicitly regressive in nature.
- Along with other undesirable features within the national insurance system this reduction in rates for those on higher incomes undermines the integrity of the UK tax system and has encouraged tax avoidance and even abuse.
- Revenue of maybe £12.5 billion a year might be raised as a consequence of removing this reduced rate of contribution for higher earners, £11 billion of this sum coming from employees and maybe £1.5 billion from the self-employed. Because the data used to prepare these estimates was out of date these figures may be understated, a risk that is increased by the very cautious basis of estimation used.

The proposal	To charge employee's and self-employed people to national insurance at a single rate on all their earnings above the lower threshold at which such charges apply. This would remove the significant drop in the rate at which

	national insurance is charged that now happens when income from these sources reaches £50,270 per annum.
Reason for the proposal	1. To increase the prospect of vertical equity of taxation in the UK which the reduced national insurance contribution rate for those earning more than £50,270 a year in the UK clearly undermines. 2. To reduce the tax spillover effect that existing rates of national insurance create when compared to those charged under income tax rules. 3. To reduce the rate of tax avoidance in the UK. 4. To consequently improve the rate of tax compliance in the UK. 5. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural consequence of this proposal is likely to be small, most especially if the opportunity to avoid national charges by the creation of an investment income surcharge, which will also be recommended in this report, is enacted. Few people will willingly reduce their contractually due incomes to avoid a tax charge despite the claim made by microeconomists that this is likely. The fact that most people have fixed financial commitments and lifestyles that they wish to maintain does in fact suggest that the opposite might well be the case. It is, therefore assumed that an overall neutral reaction to this change is likely. Assuming this to be the case then a sum of between £10.5 billion and £12 billion might be raised from those in employment as a result of this change, with a further £1.5 billion (or thereabouts) a year likely to be raised from the self-employed. An overall yield of £12.5 billion is, therefore, suggested to be likely to arise as a result of this change.

Ease of implementation	Simple. The change is technically straightforward.
Likely difficulties that might result from implementation	Few. The change is no more complicated than any other change in national insurance rate, and these are commonplace.
Likely time required to implement the change	Months in the year preceding the year of actual change.
Consultation period required.	Short.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/08/abolishing-the-lower-rate-of-national-insurance-for-high-earning-employees/

Chapter 8.0

Capital Gains Tax – Introduction

Background

Capital gains tax was introduced in the UK in 1965. As was made clear by the Rt Hon James Callaghan MP, the Chancellor of the Exchequer at the time, the aim was to ensure that income could not be re-categorised as capital gains and so escape from either the income tax system or fall out of taxation altogether. The tax was as a consequence always as much an anti-avoidance measure as it was a revenue-raising tax.

In the tax year 2022/23, which is the most recent for which there is confirmed data at the time of writing, capital gains tax raised £16.9 billion of revenue, which was a record[57]. This represented 1.9 per cent of total UK tax revenues in the year.

The capital gains tax rate in operation from April 2020 to April 2024 were as follows:

	From 6 April 2023	From 6 April 2020 to 5 April 2023
Standard rate (basic rate taxpayers)	10% / 18%	10% / 18%
Higher rate (higher and additional rate taxpayers)	20% / 28%	20% / 28%
Business asset disposal relief (Entrepreneur's relief) effective rate	10%	10%
Annual exemption:		
Individual	£6,000	£12,300
Trusts	£3,000	£6,150

[57] https://obr.uk/download/economic-and-fiscal-outlook-november-2023/?tmstv=1702908969

Where two rates of tax are shown the lower one is the rate charged on the disposal of all assets except properties and the higher one is that due on property.

What is subject to capital gains?

Capital gains tax is charged on capital gains earned by a UK resident and domiciled person wherever those gains might arise in the world. A resident but non-domiciled person can be subject to different rules.

A capital gain is the measure of the increase in the value of an asset between the time of its acquisition and the time of its disposal. Disposal does not necessarily mean that a sale must take place as capital gains tax can be charged when some gifts are made.

The types of assets on which capital gains tax might be charged in the UK include:

- Shares and other investments.
- Land and buildings.
- Businesses.
- Artwork and other collectible items (although rules exist to take small value items out of consideration).
- Foreign currency and cryptocurrencies.

If a person trades in assets of these types they can be subject to income tax on their gains.

Many of the assets are subject to complex valuation rules that significantly increase the complexity of this tax.

The UK's tax system includes some significant exemptions from capital gains tax charges, including:

- Gains on the disposal of a person's principle private residence.
- Gains arising on gifts made at the time of death.

There are also problematic reductions to tax rates, for example on the disposal of some business assets.

The rules for calculating capital gains have changed greatly over the years. In particular, for an extended period an 'indexation allowance' that supposedly eliminated gains attributable to inflation from charge was included within the tax calculation, but no such provision is included at present.

A generous annual exempt allowance has always been a feature of this tax, although this has been reduced recently.

The problems with the UK's capital gains tax system

There are considerable problems with capital gains tax when it comes to the taxation of wealth. Examples include:

a) The fact that those individuals who make capital gains have an additional personal allowance above that provided for income tax purposes, even after the reduction in 2023 noted above. This reduces their overall tax liabilities, inequitably.

b) Capital gains are charged to tax at approximately half the tax rate used on the income of the same person in the same year. This encourages tax abuse.

c) There are major exemptions from capital gains tax. This most especially applies to a person's principal private residence, which is exempt from tax. This has caused considerable distortion within the UK housing market and with regard to the distribution of wealth in the UK.

d) Capital gains tax is not charged on death and the gifts resulting from it, although it is on lifetime gifts.

e) Some exemptions from capital gains tax, such as business asset disposal relief, which is still popularly known as entrepreneur's relief, make no economic sense.

The recommendations made in the Taxing Wealth Report 2024 are designed to tackle some of these issues.

Recommendations

Capital gains tax was always meant to discourage tax avoidance and tax planning, and yet it has become the epicentre of a major tax planning industry precisely because of the issues noted above. The disparities in tax rates, allowances, and exemptions noted have created what are technically called significant tax spillovers[58], which are themselves the subject of a separate chapter within the tax administration section of the Taxing Wealth Report 2024. The recommendations made in this report are intended to reduce these tax spillover effects.

[58] https://www.taxresearch.org.uk/Blog/glossary/T/#tax-spillover-assessment

The recommendations made include:

- Charging capital gains at income tax rates. This might raise £12 billion of tax a year.

- Making capital gains subject to an investment income surcharge for income tax purposes. The estimated revenue for this charge is included in the income tax section of the Taxing Wealth Report 2024 and so is not duplicated here.

- Reducing the annual exemption for gains not subject to tax to bring that exemption into line with similar exemptions offered for the purposes of creating administrative ease within the income tax system. This might raise £0.4 billion of tax a year.

- Abolishing capital gains tax entrepreneur's relief. This might raise £2.2 billion of tax a year.

- Creating a capital gains tax charge on the lifetime gains that a person has made on their principal private residence, with that charge to be paid on their final disposal of the principal private residence, whenever that might arise. This might raise £10 billion of tax a year.

Future work

In the case of some of the taxes refer to in the Taxing Wealth Report 2024 there would be obvious long-term benefit to replacing the tax with one that is socially, economically and administratively more efficient. Taxes where this might be appropriate, include:

- national insurance,

- council tax, and

- inheritance tax.

There is not, however, an alternative to having a capital gains tax within the comprehensive range of taxes that any modern democracy requires if a jurisdiction is to impose fair taxation upon the people to whom it is responsible. As a result, there is no suggestion made here for a future programme of work with regard to capital gains tax because the most desirable reforms are already noted, above.

Chapter 8.1

Capital gains tax – Recommendation 9

Aligning capital gains tax and income tax rates

Brief summary

This chapter suggests that:

- The tax owing on capital gains should in the future be taxed as if they represent the top part of the income of the person making those gains in the year that they arise.
- This proposal is made to end the current situation where capital gains are charged at rates that are very often half those applied to earned income.
- This change to the tax system would be easy to implement since the tax rate at which a gain is charged does at present require that the income of the taxpayer in the year in which the gain arises already be taken into account.
- The change in taxation that this proposal creates would be fair from the perspective of horizontal and vertical tax equity[59].
- This change would also eliminate a major tax spillover effect in the UK economy, as a result of which the credibility of the UK's income tax system is undermined by the existence of capital gains tax rates that are usually about half those due on equivalent income.

[59] These terms and the nature of tax spillovers are explained here. https://ww.taxresearch.org.uk/Blog/2023/09/07/the-taxing-wealth-report-2024-methodology/

- There would be a significant reduction in the amount of time wasted on tax avoidance activity in the UK as a result of this change to the overall advantage of society at large as this activity makes no useful contribution to the wellbeing of society as a whole.

- The proposed change is fair because the increase in the wellbeing of a person as a result of an additional pound of wealth is the same whether derived from income or capital gains, meaning that it is appropriate that they be taxed at the same rate.

- The calculated estimated additional sum owing as a result of this change is in excess of £16 billion per annum. In case of potential behavioural changes it is assumed that a lower sum of £12 billion might be raised for the sake of prudence.

The proposal	To align the rates of tax charged on income and capital gains by assuming that the chargeable capital gains of a UK resident taxpayer form the top part of their income for taxation purposes in a year.
Reason for the proposal	1. To improve the horizontal equity of taxation, which is currently undermined by the reduced rates of tax payable on capital gains in the UK. 2. To increase the prospect of vertical equity of taxation in the UK which is heavily dependent upon the creation of improved horizontal tax equity. 3. To reduce the tax spillover effect that existing rates of capital gains tax create when compared to those charged under income tax rules. 4. To reduce the rate of tax avoidance in the UK. 5. To consequently improve the rate of tax compliance in the UK. 6. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation cannot be known, although it is likely to be small as most capital gains arise as a consequence of transactions undertaken in the normal course of economic activity and the number

	actually planned for tax reasons on which a tax liability might arise might be quite small. Assuming this to be the case then a sum of between £12 billion and £16 billion a year might be raised as a result of this proposal. The lower sum is used as the estimate for the additional revenue to be raised from this proposal to allow for possible behavioural changes.
Ease of implementation	Simple.
Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	Months in the year preceding the year of actual change.
Consultation period required.	As short as possible to prevent abuse in advance of the change.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/11/aligning-capital-gains-tax-and-income-tax-rates-might-raise-more-than-12-billion-in-tax-a-year/

Chapter 8.2

Capital gains tax – Recommendation 10

Abolishing entrepreneur's relief

Brief summary

This chapter suggests that:

- Capital gains tax business asset disposal relief, which is still popularly known as entrepreneur's relief, should be abolished.
- This relief does at present offer a 10% tax rate on the first £1 million of gains made by a person during their lifetime when disposing of relevant business assets, which will usually be an interest in a private business.
- The relief is claimed by relatively few people a year and the vast majority of the relief by value usually goes to a relatively small number of claimants. In 2020 just 4,000 claimants enjoyed 73 per cent of the total relief provided by value.
- The relief makes no economic sense. It does not encourage entrepreneurial activity because it provides relief when a business is sold i.e., when the person making the claim has ceased entrepreneurial activity. As a result, the relief does not encourage entrepreneurial activity but does instead encourage short-termism within the UK economy. This is sufficient in itself to justify abolition of this relief.
- HM Revenue & Customs estimate that at current rates of capital gains tax this relief now costs £1.1 billion per annum. However, this report suggests that current capital gains tax rates be abolished and that capital gains should be taxed at in come tax rates. That is likely to increase the cost of this relief, and so the amount that might be saved by its abolition, to approximately £2.2 billion per annum.

The proposal	To abolish entrepreneur's relief within UK capital gains tax.

Reason for the proposal	1. To improve the horizontal equity of taxation, which is currently undermined by the availability of capital gains tax entrepreneur's relief. 2. To increase the prospect of vertical equity of taxation in the UK which is heavily dependent upon the creation of improved horizontal tax equity. 3. To reduce the tax spillover effect that having entrepreneur's relief within capital gains tax creates. 4. To reduce the rate of tax avoidance in the UK which this relief encourages. 5. To consequently improve the rate of tax compliance in the UK[60]. 6. To raise additional sums in additional tax revenues. 7. To reduce wealth inequality in the UK which capital gains tax entrepreneur's relief increases.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation cannot be known but is likely to be beneficial by encouraging longer term business development before disposals take place. The impact on tax yields might also be beneficial in that case as gains might be larger if business assets are held for longer. The current estimated cost of this tax relief provided by HM Revenue & Customs is £1.1billion per annum, but that estimate assumes that the applicable tax rate is 20%. If that tax rate was increased to a person's marginal income tax rate the amount that might be raised by abolishing this allowance might increase to £2.2 billion a year.
Ease of implementation	Simple. The sum relieved was reduced without difficulty in 2020.

[60] Many of the terms used in this summary are explained in more depth at https://www.taxresearch.org.uk/Blog/2023/09/07/the-taxing-wealth-report-2024-methodology/

Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	Months in the year preceding the year of actual change.
Consultation period required.	Short.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/12/abolishing-capital-gains-tax-entrepreneurs-relief-might-raise-approximately-2-2-billion-of-tax-a-year/

Chapter 8.3

Capital gains tax – Recommendation 11

Reducing the annual exempt amount for capital gains tax

Brief Summary

This chapter suggests that:

- The capital gains tax annual exempt amount should be reduced from £6,000 per annum to £1,000 per annum.
- Since the exempt amounts that might be earned from trading and property activity within income tax law are now £1,000 per annum it makes sense that the same limit be used for capital gains tax purposes.
- The administrative burden on a person making capital gains exceeding £1,000 a year can be no higher than those on the person making trading or property income exceeding £1,000 a year when it comes to preparing a tax return and as such this request is administratively reasonable.
- It is likely that this proposal will not only promote horizontal and vertical tax equity but that it will also reduce the incentive to avoid tax and increase tax revenues by £0.4 billion per annum, and potentially somewhat more.

The proposal	To reduce the capital gains tax annual allowance or exempt amount to £1,000 per annum to match the equivalent exempt sums allowed for trading and property income within income tax.
Reason for the proposal	1. To improve the horizontal equity of taxation, which is currently undermined by the availability

	of an additional exempt amount or allowance for capital gains enjoyed by UK resident taxpayers. 2. To increase the prospect of the vertical equity of taxation in the UK which is heavily dependent upon the creation of improved horizontal tax equity. 3. To reduce the tax spillover effect that having an annual exempt amount for capital gains tax creates. 4. To reduce the rate of tax avoidance in the UK. 5. To consequently improve the rate of tax compliance in the UK. 6. To raise modest sums in additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation cannot be known. The recommendation should end the practice of tax planning to make use of the annual exempt amount for capital gains tax purposes which has been commonplace until recently and which will not be worthwhile once this change has taken place. Based on HMRC data it is suggested that this change might raise additional revenue of £0.4 billion a year but it has to be accepted that the true impact cannot be known in advance and may be significantly higher.
Ease of implementation	Simple.
Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	Months in the year preceding the year of actual change.
Consultation period required.	Short.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/26/reducing-the-annual-exempt-amount-of-capital-gains-a-person-might-enjoy-a-year-to-1000-might-raise-at-least-0-4-billion-of-additional-tax/

Chapter 8.4

Capital gains tax – Recommendation 12

Charging capital gains tax on the final disposal of a person's main residence

Brief Summary

This chapter suggests that:

- A capital gains tax charge should be made on the final disposal of a former residential home by a person or their spouse or civil partner.
- This capital gains tax charge would usually arise on the death of a person or on the death of the last surviving member of the marriage or civil partnership of which they were a part, but it could also arise on the merger of households, on a sale before moving into a care home or on disposal of a property before emigrating. A partial charge could also arise on downsizing.
- Residential properties would be taken out of the scope of inheritance tax if this charge was made.
- This charge would be considerably more equitable and predictable than current inheritance tax charges, which create considerable regional tax injustice.
- The charge is fair: it only arises when a person ceases to have use of their main residence.
- Without suggesting that the tax be hypothecated it is suggested that it is likely that it would be considerably more acceptable if a commitment was made to invest the proceeds in social housing.

- The proceeds that might arise from this suggestion are hard to estimate because the current level of gains of this sort arising on death are not known, not least because capital gains tax is not chargeable on death at present.

- It is known that the exemption of people's main residences from capital gains tax charge is thought by HM Revenue & Customs to cost £35.2 billion of tax foregone each year at present.

- Depending on the rates of capital gains tax chosen (and the Taxing Wealth Report 2024 generally suggests that those in use for capital gains tax are too low and should be subject to an investment income surcharge, which might be waived in this case) the amount of tax that might be raised could vary considerably. However, it would not be unreasonable to think that at least £10 billion of additional revenue could be raised a year, having taken into consideration the loss of inheritance tax on such properties.

- This proposal would require considerable consultation and great care in drafting to ensure that tax justice was delivered.

The proposal	To charge capital gains tax on the last occasion that a person, or a person connected to them, makes disposal of a residential property previously used as their main residence without reinvesting the proceeds in a new main residence. This is most likely to happen on death.
Reason for the proposal	1. To improve the horizontal equity of taxation, which is currently undermined by the exemption from capital gains tax of the main domestic residence of a UK taxpayer when no equivalent relief is available to a person who rents their main residence. 2. To increase the prospect of vertical equity of taxation in the UK which is heavily dependent upon the creation of improved horizontal tax equity.

	3. To reduce the tax spillover effect that this exemption from capital gains tax creates in the UK housing market and in UK wealth profiles. 4. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this charge is hard to predict. As a matter of fact, people will still dispose of properties that were previously their main residence, either during their life or on death. This charge will, then, be unavoidable. This fact will be assisted by the charge applying equally to those properties that are gifted (where the market value of the property gifted will be taxed) as well as to those that are sold. It is exceptionally unlikely that people will be dissuaded from owning their own main domestic residence as a result of this charge. Again, this suggests only a very limited scope for behavioural response to this charge. There may be minor behavioural issues to deal with on disposals taking place during life which do not result in the reinvestment of proceeds in another main residence. These are most likely when merging households, going abroad or selling in old age but before death. Careful drafting will be required in the first two cases, most especially if reinvestment does then subsequently occur within a reasonable time period of the earlier disposal, and in the last case to ensure no unforeseen interactions with inheritance tax arise within a reasonable time period of disposal. Likely proceeds from this charge should exceed £10 billion, therefore considerably exceeding the current inheritance tax charge on such properties whilst being considerably more equitable with regard to the basis of charge across the UK population as a whole. Since the largest gains likely to be subject to this charge will be those on the most valuable properties, which are by

	definition owned by the wealthy, this charge will inevitably reduce wealth inequality in the UK.
Ease of implementation	Not straightforward because of the sensitivity of the issues and because of issues referred to in the preceding paragraph.
Likely difficulties that might result from implementation	Technically few. Practically, a lot of taxpayer preparation might be required, as might also be the case with regard to systems required for reporting a potential tax liability, especially if it arises during life rather than on death.
Likely time required to implement the change	Several years for the reasons noted in the next section.
Consultation period required.	This is, in effect, a new tax on a tax base that has previously been considered sacrosanct from charge, and as such is bound to require an extensive consultation process to ensure that the tax is fair and charged appropriately. Implementation is, therefore, likely to take 2 to 3 years from the time proposal is made.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/28/charging-capital-gains-tax-on-the-final-disposal-of-a-persons-main-residence-might-raise-10-billion-of-tax-a-year/

Chapter 9.0

Corporation tax reforms - Introduction

Background

The UK's corporation tax was introduced in 1965 at the same time as the country also saw the introduction capital gains tax. Both taxes were introduced by a Labour government that was anxious to both modernise the UK's tax system and to remove from it opportunities for abuse that existed in the system that they had inherited from the previous Conservative government.

Corporation tax is a tax that is primarily charged on the income, gains and profits of private limited liability companies and public limited companies (PLCs). It can also be charged on the income of some unincorporated bodies, but this is incidental to its main function.

Corporation tax is, when ranked by revenue, the fourth largest tax in the UK, raising £78.6 billion in the tax year 2022-23, which sum represented 8.8 per cent of all UK tax revenues[61].

Corporation tax is also one of the most abused taxes in the UK. It is estimated by HM Revenue & Customs that at least 13.3 per cent of all corporation tax revenues were evaded or avoided by taxpayers in the tax year 2021-22, with that figure increasing to 29.3 per cent in the case of smaller companies that pay approximately half of all UK corporation tax. Both these figures are on rising trends: this is a tax that appears to be out of control in the UK[62].

Corporation tax rates

When corporation tax was first introduced all companies paid tax at the same rate of around 40% on their profits arising during the course of a year.

In 1973, that changed. Companies that were defined as being small paid tax at a rate that was usually 10% less than that imposed on large companies.

[61] Based on table A5 here: https://obr.uk/download/economic-and-fiscal-outlook-november-2023/?tmstv=1701349270

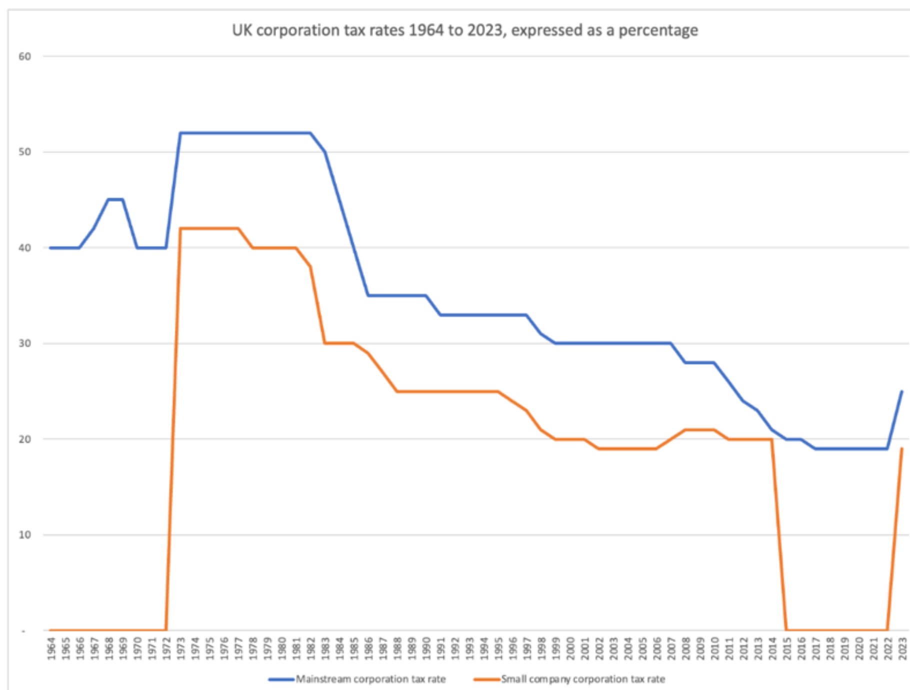
[62] https://www.gov.uk/government/statistics/measuring-tax-gaps/5-tax-gaps-corporation-tax

It should be noted that the difference between a large and small company was based upon the level of profit that was generated by a company for corporation tax purposes during the course of a year. As a consequence, a company with a low turnover but with very high profitability could be defined as a large company, whilst a very large company that made a very small profit could be defined as a small company. Groups of companies were treated as single entities for this purpose to prevent abuse. This definition has persisted to date.

As will be noted from the chart below, opportunity was taken when the small companies rate of corporation tax was introduced to increase the rate of tax charged on the profits of large companies, which in the 1970s exceeded 50 per cent.

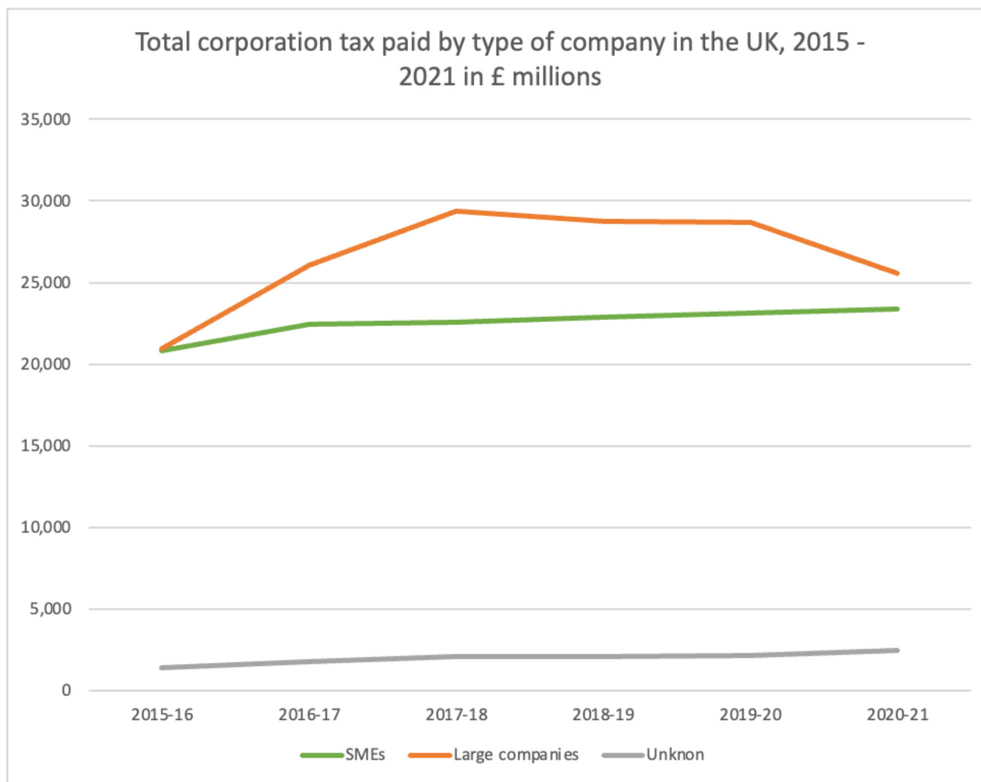
Corporation tax rates fell steadily during the early years of Margaret Thatcher's administration in the 1980s. They then broadly flatlined at between 35% and 30% for more than two decades, until a further steady decline started just before the global financial crisis in 2008, with corporation tax rates reaching their lowest ever level at 19% from 2017 onwards, only recently having been raised again.

It will be noted that from 2015 to 2022 small companies paid corporation tax at the same rate as large companies, i.e. at 19% for most of this period. In 2023 corporation tax rates for large companies have been raised to 25%, but small companies still pay tax at 19%.



Sources: various from data collected by the author over time

In recent years, the estimated amount of corporation tax paid by large and smaller companies, as identified by HM Revenue and Customs to the best of their ability given that these terms had little relevance to liabilities owing during the course of this period, were as follows:



Source: HM Revenue & Customs and author calculations[63]

To put these numbers in context the number of large and small companies and the average tax liabilities that they settled in each of the years noted were as follows:

	Number of large companies	Total tax paid by large companies	Average tax paid by each large company	Number of SMEs	Total tax paid by SMEs	Average tax paid per SME	Multiple: large to small company tax payments
	Number	£'million	£'million	Number	£'million	£	Ratio
2015-16	18,911	20,960	1.108	1,293,868	20,843	16,109	68.80
2016-17	18,982	26,032	1.371	1,384,777	22,435	16,201	84.65
2017-18	19,576	29,396	1.502	1,434,347	22,561	15,729	95.47
2018-19	19,147	28,733	1.501	1,453,288	22,866	15,734	95.38
2019-20	17,886	28,678	1.603	1,512,888	23,154	15,305	104.77
2020-21	18,432	25,552	1.386	1,461,466	23,365	15,987	86.71

[63] https://www.gov.uk/government/statistics/corporation-tax-statistics-2022 table 10

Source: HMRC and author calculations[64]

As this table shows, in most years more than half of all corporation tax payments in the UK are made by a small number of very large companies. This is because of the massive imbalance in their profitability when compared to that of small and medium sized companies that pay tax[65].

Problems with the UK's corporation tax

Corporation tax has been subject to considerable attention from tax specialists, tax justice, campaigners, governments, international organisations such as the Organisation for Economic Cooperation and Development, and journalists over the last two decades as a consequence of the perceived abuses of corporation tax by companies based in the UK and elsewhere, and most particularly the abuse perpetrated by those multinational corporations that have made use of tax havens to reduce their corporation tax liabilities.

As a result of this focus of attention considerable changes to the international aspects of this tax have occurred in recent years including:

1. The introduction of country-by-country reporting[66] by the OECD[67] requiring that multinational corporations report their results to their tax authorities based on the jurisdictions where they make their sales, employ their staff, engage their assets, record their profits and pay their taxes. This makes the artificial relocation of profits between high and low tax jurisdictions harder to achieve.

2. Automatic information exchange from many tax havens to countries like the UK of data on companies located in those places controlled by people who are UK tax resident, again making the use of tax haven locations much harder for tax abuse purposes.

3. The introduction of minimum global corporation tax rates for a limited range of very large multinational corporations by the Organisation for Economic Cooperation and

[64] https://www.gov.uk/government/statistics/corporation-tax-statistics-2022 table 10
[65] See https://taxingwealth.uk/2023/09/22/reforming-the-administration-of-corporation-tax-in-the-uk-might-raise-at-least-6-billion-of-tax-a-year/ This information is based on the companies that do pay tax: evidence suggests that HM Revenue & Customs do not know how many should.
[66] First designed and then campaigned for by the author of this report. https://www.internationaltaxreview.com/article/2a690uzo3gga4tnxell34/no-9-richard-murphy
[67] https://www.oecd.org/tax/beps/guidance-on-country-by-country-reporting-beps-action-13.htm

Development in 2024, again reducing the risk of artificial profit relocation to low tax jurisdictions[68].

As a result of these significant changes, it is likely that the rate of such abuse has reduced significantly, even if this fact has yet to be acknowledged by many tax justice campaigners. As a consequence, little focus is given to the international dimensions of corporation tax in this report. Existing changes to the international corporation tax system need to take affect and be properly appraised before further recommendations should be made in this area. Instead, attention is given to three particular issues of concern with regard to domestic corporation tax within the UK. These are now considered to be of much higher priority if the obvious failings of this tax within the UK taxation system are to be properly addressed.

Recommended reform to UK corporation tax.

Three major reforms are suggested in this section of the Taxing Wealth Report 2024.

Firstly, the administration of UK corporation tax requires substantial reform. Although there are more than five million companies in corporation in the UK only about half of these submit a corporation tax return to HM Revenue & Customs each year, and a very large number of these report that they make no profit, with no enquiry being made of them as a consequence. There appears to be an extraordinary assumption within the UK tax system that those who have incorporated UK based companies are inherently tax compliant and so do not need to report their activities. Nor are they already worthy of much investigation.

This is despite the fact that the evidence of tax losses, particularly from smaller companies, very clearly indicates that these companies are widely used for the purposes of tax abuse, as is noted in HM Revenue & Customs' own tax gap reporting, as noted above. In this case the Taxing Wealth Report 2024 recommends that:

- Every company registered in the UK be required to submit a corporation tax return each year.
- If it fails to provide that information then those personally responsible for that failure – including all company directors - should be automatically held personally liable for any tax losses arising to HM Revenue & Customs by the company.

[68] https://www.oecd.org/tax/inclusive-framework-releases-new-multilateral-convention-to-address-tax-challenges-of-globalisation-and-digitalisation.htm

- Automatic information exchange should take place between the UK's banks and HM Revenue & Customs so that information is provided by those banks, and maybe other financial services providers on:

    - Every UK company for which they maintain a bank account.
    - The level of deposits received in that account in an annual period.
    - The company's bank balance at the close of any nominated accounting period.
    - The names and addresses of those whom the bank thinks runs the company.
    - The address from which the bank thinks the company trades.

- Based on this information, and assuming that the company does not provide alternative data, HM Revenue & Customs will be able to work out the approximate tax liability owed by a company in the absence of other data and then assess that sum upon those responsible for the administration of that entity, who would then be personally liable for settlement. It is suggested that this would massively reduce the scale of tax abuse taking place through the use of UK limit to companies and raise potential revenues of at least £6 billion per annum. The arrangement would also save HMRC considerable time by confirming which companies are also really likely to be dormant and so not worth the effort of investigating.

Secondly, in a related recommendation, it is proposed that the UK's Companies House should be reformed to improve the quality of the data that it collects from companies in the UK. Although some changes in this respect have been enacted at the beginning of 2024 there is a serious concern, based on behaviour in response to past reforms, that the requirements to file additional information now put in place will be ignored by many companies, their directors and shareholders, and those who represent them, and that information to ensure the taxes collected will not be recovered from those who are responsible to make such payments. This deficiency in company law administration in the UK has been a major impediment to effective tax collection and has facilitated tax abuse in the UK over a significant period of time and does now need to be addressed. It is estimated that the proposed reforms of Companies House will raise £6 billion of corporation tax per annum.

Finally, although there has been a recent, and welcome, re-introduction of the differential in corporation tax rates between large and small companies that current differential remains relatively modest at just six per cent, with many incentives that are available to large companies considerably reducing the effective differential. There are very strong economic arguments for re-creating a differential in these rates of at least ten per cent, which differential existed between these rates over many years throughout the history of corporation tax in the UK. It is suggested that if this differential of 10% was created then an additional £7 billion of corporation tax per annum might be collected in the UK.

Other related reforms

The above being noted, those sections of this report dealing with tax gaps, tax spillovers and the administration of HM Revenue & Customs should also be noted as each has a significant bearing on the administration of corporation tax in the UK. The use of limited companies has almost significantly contributed to tax losses arising from tax evasion and avoidance in the UK, and the under-resourcing of HMRC has facilitated this process. If corporation tax losses are to be properly addressed, then the issues noted in this report with regard tax of administration also need to be taken into consideration.

It is also appropriate to note the recommendation for the reintroduction of an investment income surcharge made in the income tax section of this report as this will impact the use of limited companies in the UK.

Chapter 9.1

Corporation tax – Recommendation 13

Reforming the administration of corporation tax

Brief Summary

This chapter proposes that:

- The administration of corporation tax by HM Revenue & Customs needs to be substantially reformed if the abuse of limited liability companies to illicitly accumulate untaxed wealth is to be prevented.

- The current lax regime for the requesting of a corporation tax return by HM Revenue & Customs should be replaced by a mandatory obligation that a company file such a return with attached accounts each year.

- That the directors and principal shareholders of a company should be required to prove their identities and current address to HM Revenue & Customs and Companies House annually.

- That the directors and principal shareholders of a company failing to supply a corporation tax return should be liable for the penalties due as a result of that failure. The latest available research on this issue suggests that 99 per cent of those penalties are unpaid at present.

- The directors and principal shareholders of a company should be liable for any tax of any sort owing by it if unpaid by the company itself unless they can demonstrate a clear commercial reason for which they were not responsible that explains the inability to pay.

- Any banker, lawyer, accountant or other person in the financial services industry acting on behalf of a company who is required by law to prove the identity of that company's directors and principal shareholders shall be required by law to provide an annual declaration to HM Revenue & Customs and Companies House confirming those identities, or a statement as to why they are unable to do so.

- Any bankers and accountants supplying services to or acting on behalf of any company in a year should be required by law to supply details of the total payments received in that company's bank accounts during each of its financial years within nine months of the end of that period so that in the absence of a corporation tax HM Revenue & Customs can raise an estimated assessment of those taxes that they think it might owe for which the directors and principal shareholders shall be liable unless they can disprove that claim.

- That these proposals should considerably reduce the amount of tax evasion in the UK, which HM Revenue & Customs estimates to be £19 billion per annum, but which might be very much higher, most of which will be undertaken through limited liability companies. A revenue estimate of £6 billion is estimated to arise as a result of these changes.

- These proposals might also considerably reduce the scale of fraud perpetrated on the government each year, which is estimated to be between £33 billion and £58 billion per annum excluding Covid related issues. No revenue estimate is made for the likely gain resulting.

- The illicit accumulation of wealth in the UK that contributes significantly to inequality might be reduced as a consequence of these changes.

The proposal	To reform the administration and enforcement regimes of corporation tax in the UK when there is considerable evidence that these are insufficiently robust at present, resulting in the trading activities of many companies going undetected with significant loss of tax almost certainly arising as a result. This can lead to the untaxed

	accumulation of wealth which is deeply destructive of social and tax justice within the UK economy as a whole.
Reason for the proposal	1. Reduce the risk of the abuse of limited liability status to avoid taxation obligations. 2. Reduce tax gaps, and so increase tax paid by those with wealth in the UK who take most advantage the opportunities provided by the incorporation of companies within the UK. 3. Increase the effectiveness of resource usage by HM Revenue & Customs in the management of tax risk arising from the operation of limited liability companies. 4. Improve taxpayer accountability and compliance, most especially with regard to the use of limited liability entities. 5. Increase horizontal tax equity, which can be undermined by the abuse of limited liability companies. 6. Increase vertical tax equity, which can be increased by the use of limited liability companies by those with wealth. 7. To reduce the tax spillover effect that existing rates of capital gains tax create when compared to those charged under income tax rules. 8. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation cannot be known, although it is likely to be significant, which is why it is being made. The amount of tax abuse, including significant tax evasion, that is being undertaken through the medium of limited

	liability companies cannot be known, but is likely to be very significant for reasons noted below. Reducing the abuse of limited liability companies to prevent the accumulation of untaxed wealth must be a significant objective of any programme with regard to the taxation of wealth. Unlike almost all the other recommendations made in the Report of which this note forms a part, the issue addressed here focuses on tax evasion and unpaid tax, which even in the estimate of HM Revenue & Customs might amount to at least £19 billion a year this is significant[69]. When they also estimate that 56 per cent of the tax gap relates to the activities of smaller business, most of which will be operated via limited liability companies, the scope for tax recovery amounts to many billions of pounds per annum[70], most especially when it is considered likely that the majority of tax abuse in the UK is undertaken through the medium of private limited companies. A target of at least £6 billion of additional revenue is proposed.
Ease of implementation	The changes proposed will take some time to implement and will require the expenditure of significant political capital by any government seeking to implement the proposed changes since opposition is likely to be significant.
Likely difficulties that might result from implementation	As noted above, there is likely to be significant opposition to these changes although they should be relatively easy to legislate and implement at a technical level.

[69] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1164246/Measuring_tax_gap_online_tables_2023.xlsx table 7.1 interpreted by author.

[70] Table 1.4 interpreted by author from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1164246/Measuring_tax_gap_online_tables_2023.xlsx

Likely time required to implement the change	A process likely to take a number of years.
Consultation period required.	At least a year as opposition is likely and will have to be noted.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/22/reforming-the-administration-of-corporation-tax-in-the-uk-might-raise-at-least-6-billion-of-tax-a-year/

Chapter 9.2

Corporation tax – Recommendation 14

Recreating a significant differential between large and small company rates of corporation tax

Brief Summary

This chapter suggests that:

- The rate of corporation tax payable by smaller companies in the UK should be aligned with the basic rate of income tax, which is 20 per cent at present. This would increase their current tax rate by 1 per cent.

- That larger companies in the UK should pay corporation tax at a rate 10 per cent higher than smaller companies because:

    - They have higher rates of profitability than their smaller rivals, usually because of their ability to extract monopoly profits from consumers because of their market strength.
    - They have lower costs of capital than smaller companies because they tend to be able to borrow more at lower cost than smaller companies, which ability also allows them to invest more than their smaller rivals which in turn tends to reduce the tax rates that they might otherwise pay.
    - The cost of proper tax compliance is proportionately higher for smaller companies than larger ones, meaning that they should enjoy at least one lower tax rate as a result to compensate them for this.
    - Smaller companies need to retain more of their profits than their larger rivals if they are to invest, and the rate of return on investment

by smaller companies tends to be high for the benefit of the UK economy as a whole.
    - Larger companies are larger polluters and pose a greater threat to biodiversity than smaller companies and so should pay more corporation tax as a result when there is at present no other tax to reflect this fact.

- There would be only limited behavioural responses to this proposal because it only applies to UK generated profits and it is increasingly difficult to relocate profits to other countries or tax havens for taxation purposes.

- As a consequence, it is likely that this proposal might raise an additional £6 billion per annum from large companies and more than £1 billion from smaller companies, providing total additional revenues of £7 billion per annum as a result.

The proposal	To change the UK's corporation tax system so that the rate of tax paid by a company, or group of companies, depends upon the rate of profit that it makes, with a progression in the rate paid as the amount of profit increases.
Reason for the proposal	1. To improve the horizontal equity of taxation, which is currently undermined by the low rates of corporation tax payable by larger companies in the UK. This then become a source of subsidy for the growth in the wealth of those with the means to own shares in these larger companies. 2. To increase the prospect of vertical equity of taxation in the UK which is heavily dependent upon the creation of improved horizontal tax equity. 3. To reduce the tax spillover effect that existing rates of corporation tax create when compared to those charged under income tax rules.

	4. To reduce the rate of tax avoidance in the UK. 5. To consequently improve the rate of tax compliance in the UK. 6. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation is likely to be small: UK corporation tax rates only apply to the UK profits of UK based groups of companies and as such there will be little incentive for them to relocate as a result of the proposed changes, whilst measures to prevent profit shifting by multinational corporations are now considerably more sophisticated than they were even a decade ago. It is likely that, taking into account the recent increase in the corporation tax rate for larger companies, that this proposal will raise £6 billion of additional tax from larger UK resident companies and more than £1 billion from smaller companies because of the suggested alignment of their tax rate with the basic rate of income tax. Total estimated additional tax revenues are, in that case, £7 billion per annum.
Ease of implementation	Relatively straightforward, not least because the UK had tiered rates of corporation tax until 2015 and they have, to some extent, already been reintroduced meaning that there is considerable familiarity with such a system.
Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	Months in the year preceding the year of actual change.
Consultation period required.	Short, largely because of the familiarity that already exists with multiple rates of corporation tax.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/25/increasing-the-corporation-tax-rate-for-the-uks-largest-companies-could-raise-7-billion-a-year-in-tax/

Chapter 9.3

Corporation tax – Recommendation 15

Reforming the administration of Companies House

Brief Summary

This chapter proposes that:

- Companies House is an almost wholly ineffective regulator of limited liability companies in the UK, many of which might be used to facilitate tax abuse and fraud.

- This is profound concern to the operation of markets in the UK, most especially when there are more companies incorporated in the UK each year than there are live births.

- There are numerous reasons for this failure on the part of Companies House, including:

    - The ease with which companies can be incorporated without proof of the identity of those doing so necessarily being required.
    - The incredibly cheap regulatory fees payable in the UK, which deny resources to Companies House to regulate companies.
    - The failure of Companies House to require accounts complying with either company law or accounting standards on public record, and their failure to address failures in this regard when they are drawn to their attention.
    - The lax attitude that Companies House has towards the striking off of companies from the register that they maintain when companies are in default of their legal obligations, which failure on their part

facilitates the use of limited liability companies by fraudsters, whether with regard to tax or otherwise.
  - The failure of Companies House to prosecute in the case of most corporate failures to provide information that should be submitted to them by law.

- The cost of this failure in terms of tax lost and in terms of fraud facilitated cannot be known, but when the former is conservatively estimated to cost £19 billion a year and the latter has been estimated to have a further cost to the government exceeding £30 billion per annum and to the private sector of in excess of £150 billion per annum[71] the scale of abuse facilitated by almost wholly unregulated limited liability companies within the UK economy is so large that it is hard to avoid the conclusion that Companies House is the facilitator of a criminogenic environment within the UK economy, even if inadvertently.

- To address this issue a series of radical reforms are proposed including:

  - Annual checks on the identities of all directors and significant shareholders involved with UK companies.
  - A requirement that UK companies have a share capital commensurate to their level of trading and that shareholders should have unlimited liability to the extent that this capital is not made available by them.
  - That the full details of all directors of a company should be available to Companies House on all occasions and should be on public record unless a case for withholding information can be proven.
  - That the full trading addresses from which the company operates should be recorded on public record.
  - That the full accounts of all companies as due to its shareholders should always be available on public record.
  - That the directors and principal shareholders of a company that is dissolved without filing full accounts to the time when application for dissolution is made, including a creditors list, shall lose the right to limited liability with regard to any debts owing at that time.

[71] https://issuu.com/petersandpeters.com/docs/annual_fraud_indicator_report_2023

- That although the Taxing Wealth Report 2024 has already estimated that maybe £6 billion of additional tax might be collected a year as a result of tackling deficiencies in the administration of the UK's corporation tax system a further similar sum might be raised by these proposals because of the limitations in other frauds that they might facilitate.

- The cost of these extra safeguards should be covered by increasing the currently minimal fees charged by Companies House.

The proposal	To reform the administration and enforcement regimes of the UK's Companies House and to require the supply of additional data concerning the commercial activity of companies to Companies House by the UK's commercial banks and others in the UK's financial services sector.
Reason for the proposal	1. To reduce the risk of the abuse of limited liability status to avoid and evade taxation obligations and other regulatory obligations. 2. To reduce tax gaps, and so increase tax paid by those with wealth in the UK who take most advantage the opportunities provided by the incorporation of companies within the UK. 3. To increase the effectiveness of resource usage by HM Revenue & Customs in the management of tax risk arising from the operation of limited liability companies. 4. To improve taxpayer accountability and compliance, most especially with regard to the use of limited liability entities. 5. To increase horizontal tax equity, which can be undermined by the abuse of limited liability companies.

	6. To increase vertical tax equity, which can be undermined by the use of limited liability companies by those with wealth. 7. To help close the tax evasion and tax avoidance tax gaps. 8. To reduce the tax spillover effect that existing arrangements fort the regulation of companies in the UK create. 9. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation cannot be known, although it is likely to be significant, which is why it is being made. The amount of tax abuse, including tax evasion, that is being undertaken as a result of the abuse of limited liability companies cannot be known, but is likely to be very significant for reasons noted below. HM Revenue & Customs estimate the tax loss to be at least £19 billion per annum[72]. Other fraud against the government might exceed £30 billion per annum, of which at least half might well be committed by limited liability companies. In the private sector economy fraud might exceed £150 billion per annum, which will in turn contribute to the UK tax gap, which may well be much bigger than HM Revenue & Customs estimate because of limitations in the methods that they use to estimate that figure as noted elsewhere in the Taxing Wealth Report 2024. Not all of this will be facilitated by those using limited liability companies, but a significant part will be.

72 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1164246/Measuring_tax_gap_online_tables_2023.xlsx table 7.1 interpreted by author.

	Reducing the abuse of limited liability companies to prevent the accumulation of untaxed wealth must be a significant objective of any programme with regard to the taxation of wealth. Unlike almost all the other recommendations made in the Report of which this chapter forms a part, the issue addressed here focuses on tax evasion and unpaid tax. When HM Revenue & Customs estimate that 56 per cent of the tax gap relates to the activities of smaller business, most of which will be operated via limited liability companies, the scope for tax recovery as a result of the enhanced regulation of limited liability companies amounts to many billions of pounds per annum[73]. This is most especially the case when it is considered likely that the majority of tax abuse in the UK is undertaken through the medium of private limited companies.
Ease of implementation	The changes proposed will take some time to implement and will require the expenditure of significant political capital by a government seeking to implement the proposed changes since opposition to them is likely to be significant. The costs of the proposed changes can easily be covered by increasing the current exceptionally low fees charged by Companies House, where the annual fee for maintaining a company is currently no more than £13 a year in most cases.
Likely difficulties that might result from implementation	As noted above, there is likely to be significant opposition to these changes although they should be relatively easy to legislate and implement at a technical level.
Likely time required to implement the change	A process likely to take a number of years.

[73] Table 1.4 interpreted by author from https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1164246/Measuring_tax_gap_online_tables_2023.xlsx

Consultation period required.	At least a year as opposition is likely and will have to be noted.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/10/18/taxing-wealth-report-2024-reforming-companies-house-might-raise-6-billion-of-tax-a-year/

Chapter 10.0

Inheritance Tax – Introduction

Background

Inheritance tax is the only tax in the UK that is supposedly charged on wealth.

If reports from opinion pollsters are to be believed, it is also the most hated tax in the UK[74].

Paradoxically, inheritance tax is also one of the taxes that a person is least likely to pay in the UK. In the tax year 2020/21, which is the last for which reliable statistical data is available, just 3.73 per cent of all estates in the UK were subject to an inheritance tax charge[75].

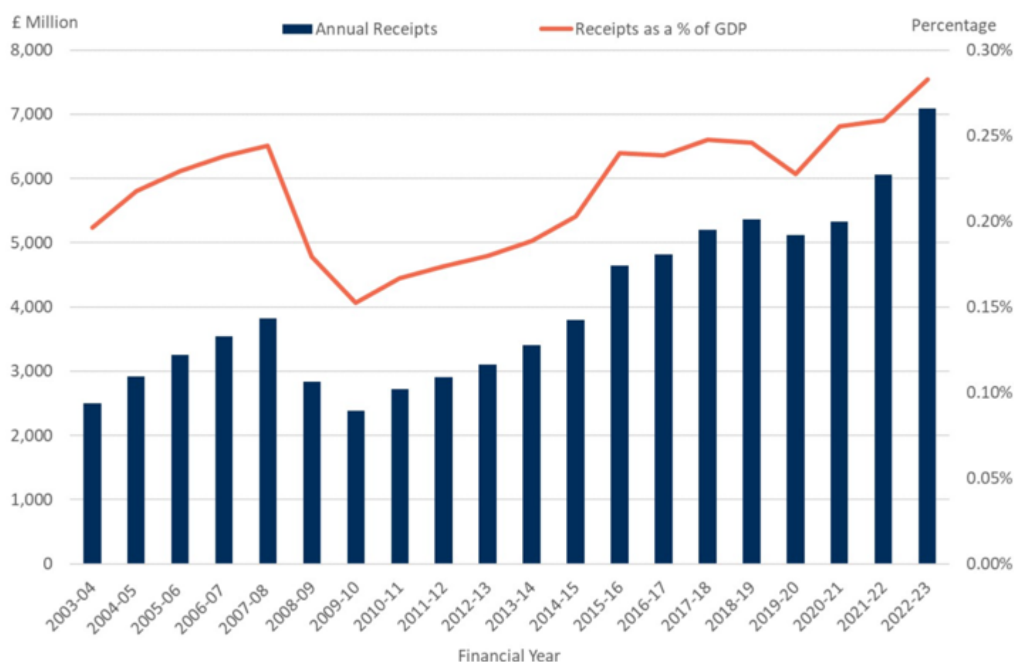
In the last year for which reliable tax collection data for this tax is available (2022/23) the tax yield from inheritance tax was £7.1 billion, which sum amounted to 0.8 cent per cent of UK tax receipts as a whole. Both amounts were, however, records, as the following chart indicates[76]:

[74] https://www.hl.co.uk/news/articles/archive/britains-most-hated-tax

[75] https://www.gov.uk/government/statistics/inheritance-tax-statistics-commentary/inheritance-tax-statistics-commentary

[76] https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk/hmrc-tax-receipts-and-national-insurance-contributions-for-the-uk-new-annual-bulletin

Annual receipts of inheritance tax and receipts as a proportion of GDP



HM Revenue & Customs has suggested that recent increases in yield are likely to be due to a combination of recent rises in asset values and the government's decision to maintain the inheritance tax nil rate tax band thresholds at their 2020/21 levels up to and including 2027/2028. Even so, revenue remains modest, overall.

Despite increasing revenues there are good reasons to think that inheritance tax is not working as it should.

What UK inheritance tax is charged on

The UK's inheritance tax system is complex, but most charges arise on:

- Gifts made by a person at the time of their death.
- Gifts made by a person in the seven years preceding their death.
- Transfers of assets into some sorts of trust, with recurring charges then arising if those assets remain in such trusts. This contributes a relatively small part of inheritance tax revenue.

UK inheritance tax rates

In the case of individuals inheritance tax is taxed at 40% on all gifts over an exempt sum, which is currently £325,000, which is a figure that has been fixed since 2009. This band can, however be enhanced[77] on the basis that:

- Transfers between spouses and civil partners are tax free, meaning that no inheritance tax need be paid on the first death of a couple related in these ways.

- The gift of a family home to a person's children (including adopted, foster or stepchildren) or grandchildren can increase the exempt sum to £500,000.

- A person who is married or in a civil partnership whose estate is worth less than their threshold can transfer any unused threshold to their partner who can then add it to their own threshold when they die, creating the possibility of a threshold of up to £1 million.

This tax is not, in that case, as penal as many think it is, but it does create a bonanza for tax planners feeding on people's prejudices.

The problems with the UK's inheritance

Firstly, it has to be made clear that as a proportion of UK wealth the amount of inheritance tax paid is miniscule. Current estimated UK financial wealth is, according to the Office for National Statistics and in particular its wealth surveys[78] approximately £15,221 billion. The failure of this tax to make any significant inroads into wealth or to tackle wealth inequality suggests that it is poorly designed, inappropriately targeted and highly avoidable by some. That means that the tax is failing to address issues with regard to vertical tax equity and inequality in the UK. It may also be creating horizontal tax inequity.

Secondly, inheritance tax's treatment of the taxation of former domestic residences, either on death or in the years prior to it, is inequitable. Since property prices vary enormously around the country applying a consistent tax rate of tax on the value of particular asset if above a fixed sum does appear to be particularly unfair. For that reason, a chapter in the Taxing Wealth Report 2024 series suggests that the inheritance tax charge on former domestic residences should be replaced with a capital gains tax charge on the final disposal of a former domestic residence by a person tax resident within the UK, with certain caveats and conditions attached. The inheritance tax anomaly relating to these assets would be removed as a

[77] https://www.gov.uk/inheritance-tax

[78] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020

consequence.

Third, there are significant reasons for concern when this tax appears to be quite effective in imposing charge upon the estates of those with smaller estates primarily made up of lifetime savings and domestic residences but appears to be particularly ineffective when taxing the estates of the wealthiest that are saved in other ways.

Inheritance tax is, in that case, in need of reform.

Recommendations

The obvious long-term solution to the problems within inheritance tax is to replace that tax with a lifetime gifts receipts tax, which would be substantially more equitable. However, in view of the wide range of other recommendations already been made in the Taxing Wealth Report 2024, a series of more modest recommendations will be made here. They will be:

- To take domestic residences out of the scope of inheritance tax and make them subject to capital gains tax on death or last disposal. This issue is addressed in the capital gains tax section of this report.
- To review inheritance tax business property relief.
- To review inheritance tax agricultural property relief.
- To review inheritance tax charges on personal pension funds.
- To review the use of inheritance tax reliefs on gifts to charities and related issues.
- To review the rates at which inheritance tax is charged to make the tax more progressive.

Each of these issues is addressed in a separate chapter within the context of The Taxing Wealth Report 2024.

Future work

Whilst the Taxing Wealth Report 2024 is limiting itself to reforms that might make sense in the short term and which can be adopted in isolation, this does not mean that future work cannot address the significant weaknesses within the structure of this tax, including:

- That the basic logic of a tax on death, charged irrespective of who inherits (charities and spouses apart) makes little sense. A tax on the receipt of gifts would make much more sense and promote greater equality.

- That the rates at which the tax is charged are too inflexible: a progressive scale would make much more sense.

- Arrangements for long established trusts still mean that some property falls beyond the scope of this tax.

These, however, are issues for further attention in due course and are, as a result, beyond the scope of this current review.

Chapter 10.1

Inheritance tax – Recommendation 16

Removing the inheritance tax exemption for funds retained in a pension fund on death

Brief summary

This chapter suggests that:

- The current inheritance tax provisions that exempt from charge to that tax sums left in personal pension arrangements that have been undrawn at the time of a person's death should be abolished.
- These arrangements have been abused with consequence for horizontal and vertical tax equity in the UK.
- This abuse is widely known about and advised upon by UK financial services providers.
- Despite forthcoming panned changes to pension tax laws, this arrangement is likely to offer continuing opportunity for abuse in the future.
- On the basis of reasonable estimates, abolishing this exemption could raise maybe £1.3 billion in additional tax revenue per annum.
- This change would be easy to implement.

The proposal	To remove the inheritance tax exemption for funds retained in a pension fund on death.

Reason for the proposal	1. To improve the horizontal equity of taxation, which is currently undermined by this exemption which removes from an inheritance tax charge a sum that was itself accumulated in a pension fund on a tax-free basis, creating considerable imbalance within the tax system between those able to take advantage of this arrangement and those who cannot. 2. To increase the prospect of vertical equity of taxation in the UK which is currently undermined by the ability of some people to take advantage of this opportunity, undermining the vertical tax equity of inheritance tax. 3. To reduce the tax spillover effect that this exemption creates by encouraging the accumulation and retention of funds in tax free pension arrangements. 4. To reduce the rate of tax avoidance in the UK which this exemption encourages. 5. To consequently improve the rate of tax compliance in the UK. 6. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation is hard to estimate because the extent to which the exemption is used is currently unknown because of a lack of data on the issue and some planned changed to pension rules might make it less attractive in the future for reasons unrelated to inheritance tax. Based on reasonable assumptions the exemption might cost more than £1.3 billion annum at present.
Ease of implementation	Relatively straightforward. The exemption was introduced with little fanfare and could be removed in much the same way.

Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	Months in the year preceding the year of actual change.
Consultation period required.	Short, largely because few realistic objections are likely to be capable of being made.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/10/12/the-taxing-wealth-report-2024-abolishing-the-inheritance-tax-exemption-on-some-funds-retained-in-pension-arrangements-at-the-time-of-a-persons-death-might-raise-1-3-billion-a-year/

Chapter 10.2

Inheritance tax – recommendation 17

Reforming business property relief

Brief summary

This chapter suggests that:

- Inheritance tax business property relief currently costs £3.2 billion a year.
- The relief is open to abuse, which opportunity is well known and is advertised. Where that abuse is possible the relief should now be withdrawn.
- There is limited evidence of an economic need for this relief in other cases, although the provision of deferred payment arrangements to prevent business disruption at the time of the death of the owner of business assets is entirely appropriate.
- Payment deferral periods of up to three years might be permitted in those cases where 50% inheritance tax business property relief is provided at present.
- Payment deferral periods of up to five years might be permitted in those cases where 100% inheritance tax business property relief is provided at present, with the option for extension at the discretion of HM Revenue & Customs.
- Up to £3.2 billion of additional tax might be collected per annum over time as a result of the adoption of these recommendations.

The proposal	To abolish inheritance tax business property relief in cases where it is likely to be abused and to replace it in other cases with generous deferred payment periods so that the disruption that might result from making forced sales soon after death to settle inheritance tax liabilities is avoided, thereby protecting the ongoing business subject to this arrangement.
Reason for the proposal	1. To improve the horizontal equity of taxation, which is currently undermined by this exemption which removes an inheritance tax charge at the time when a capital gains tax is also avoided in many cases. 2. To increase the prospect of vertical equity of taxation in the UK which is currently undermined by this relief. 3. To reduce the tax spillover effect that this exemption creates by encouraging the ownership of business property at death. 4. To reduce the rate of tax avoidance in the UK which this exemption encourages. 5. To consequently improve the rate of tax compliance in the UK. 6. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation is likely to be small. The reasons for providing this relief are respected by the proposal made, which grant significant time to make payment of the inheritance tax payable on most business assets, so avoiding any serious business interruption that may result from the requirement to do so. At the same time the opportunity to abuse this relief is closed.

	There are unlikely to be few realistic objections to this proposal. Based on reasonable assumptions this relief might cost more than £3.2 billion annum at present and this sum is likely to be raised in future as a result of its cancellation.
Ease of implementation	Relatively straightforward.
Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	Months in the year preceding the year of actual change.
Consultation period required.	Moderate because objections are likely to be made and will have to be heard.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/10/16/taxing-wealth-report-2024-reforming-inheritance-tax-business-property-relief-might-raise-3-2-billion-of-tax-a-year/

Chapter 10.3

Inheritance tax – Recommendation 18

Reforming agricultural property relief

Brief summary

This chapter suggests that:

- Inheritance tax agricultural property relief currently costs just over £1 billion a year in tax foregone at present.
- The relief is open to abuse and that opportunity should now be denied.
- There is limited evidence of an economic need for this relief in other cases, although the provision of deferred payment arrangements to prevent business disruption at the time of the death of the owner of agricultural assets is entirely appropriate.
- A payment deferral period of up to five years might be permitted in cases where the estate of a person who actually used the assets in their farming business (some exceptions now being noted) has to sell assets to make payment of tax owing, with the option for extension at the discretion of HM Revenue & Customs.
- Up to £1 billion of additional tax might be collected per annum over time as a result of the adoption of these recommendations.

The proposal	To abolish inheritance tax agricultural property relief in cases where it might be abused and to replace it in other

	cases with generous deferred payment periods so that the disruption that might result from making forced sales soon after death to settle inheritance tax liabilities is avoided, thereby protecting the ongoing agricultural business subject to this arrangement.
Reason for the proposal	1. To improve the horizontal equity of taxation, which is currently undermined by this exemption which removes an inheritance tax charge at the time when a capital gains tax is also avoided in many cases. 2. To increase the prospect of vertical equity of taxation in the UK which is currently undermined by this relief. 3. To reduce the tax spillover effect that this exemption creates by encouraging the ownership of agricultural property at death. 4. To reduce the rate of tax avoidance in the UK which this exemption encourages. 5. To consequently improve the rate of tax compliance in the UK. 6. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation is likely to be small. The reasons for providing this relief are respected by the proposal made, which grant significant time to make payment of the inheritance tax payable on most agricultural assets, so avoiding any serious business interruption that may result from the requirement to do so. At the same time the opportunity to abuse this relief is closed. There are unlikely to be few realistic objections to this proposal.

	Based on reasonable assumptions this relief might cost more than £1 billion annum at present and this sum is likely to be raised in future as a result of its cancellation.
Ease of implementation	Relatively straightforward.
Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	Months in the year preceding the year of actual change.
Consultation period required.	Moderate because objections are likely to be made and will have to be heard.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/10/17/taxing-wealth-report-2024-reforming-inheritance-tax-agricultural-property-relief-might-raise-1-0-billion-of-tax-a-year/

Chapter 10.4

Inheritance tax – Recommendation 19

Reforming the rates at which inheritance tax is charged

Brief Summary

This chapter proposes that:

- The rates at which inheritance tax is charged should be subject to review.
- The existing flat charge rate of this tax is inappropriate and might be one reason for its lack of political acceptability.
- The current charge structure of this tax also fails to deliver sufficient vertical tax equity within this tax.
- At the same time, that flat rate also results in insufficient wealth being redistributed by this tax when that is one of the objectives for using it.
- If new tax rates from 10 per cent to 60 per cent of the value of chargeable estates were introduced on cumulatively increasingly wide bands of chargeable estate, then whilst no additional tax might necessarily be collected the distribution of that charge would change considerably, with much more being paid by higher value estates.
- The suggested revised structure would reduce the inheritance tax due on almost all chargeable estates of less than £1 million, often by significant amounts.

• When this issue has been addressed, and when other recommendations in the Taxing Wealth Report 2024 relating to this tax have been considered, it may be appropriate to reconsider the size of the nil rate band for this tax.

The proposal	To reform the rates and allowances at which inheritance tax is charged so that: • The tax is more progressive. • Less tax is paid on smaller estates. • More tax is paid on larger estates (ignoring any other proposals made in the Taxing Wealth Report 2024).
Reason for the proposal	1. To improve the public perception of inheritance tax by: • Making it more progressive. • Reducing its impact on smaller estates. • Increasing the overall yield to tackle increasing wealth inequality in the UK. 2. To increase vertical tax equity. 3. To reduce the incentive to avoid inheritance tax. 4. To reduce the tax spillover effect that existing inheritance tax rates create. 5. To potentially raise additional tax revenues but in a more progressive fashion.
Estimated tax that might be raised as a result of the recommendation made	The behavioural responses to this recommendation cannot be known but are likely to be positive amongst most groups that currently view inheritance tax negatively. There will be negative reaction from those with significant wealth. Political capital will have to be expended to address this issue.

	An example calculation of additional tax that might be raised is included in this chapter. Whilst it suggests that no new tax might be raised by making inheritance tax significantly more progressive it does suggest that its redistributive qualities might be enhanced considerably.
Ease of implementation	The changes proposed will be easy to implement. No technical difficulties should arise.
Likely difficulties that might result from implementation	As noted above, there is likely to be significant opposition to these changes but that is the only difficulty that should be anticipated.
Likely time required to implement the change	Capable of being delivered in any Finance Bill i.e. in a matter of months.
Consultation period required.	A few months, at most.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/10/27/taxing-wealth-report-2024-reforming-the-rates-at-which-inheritance-tax-is-charged/

Chapter 10.5

Inheritance tax – Recommendation 20

Reforming inheritance tax charity tax reliefs

Brief Summary

This chapter proposes that:

- Tax reliefs available for gifts to charities should be restricted in all cases, including for inheritance tax, where any of the following arise:
  A material personal gain arises as a result of the gift, even if only by reason of overt publicity.
  - That some degree of control over the gift or the donated asset has been retained.
  - The charity favoured by the gift had not distributed more than 80 per cent of its revenues for charitable purposes in the five years preceding the donation or in the three years following it.
- That measures to achieve these goals should be put in place as a targeted anti-avoidance rule for tax purposes.
- That the purpose for making these changes is not to raise revenue (although some savings in relief given may arise) but is instead to:
  - Prevent tax abuse.
  - Prevent the tax system being used in combination with charitable structures to perpetuate the current unequal division of wealth within society.
  - Encourage good governance on the part of charities.

○ Protect the charitable sector as a whole from abuse, meaning that all well-managed charities gain from these proposals.

The proposal	To restrict the tax relief due on gifts to charities, whether for inheritance tax, income tax or capital gains tax purposes, in cases where: • A material personal gain arises, even if only by reason of overt publicity. • That some degree of control over the gift or the donated asset has been retained. • The charity favoured by the gift had not distributed more than 80 per cent of its revenues for charitable purposes in the five years preceding the donation or in the three years following it.
Reason for the proposal	1. To reduce the incentives to avoid inheritance tax and other taxes by using the reliefs available for gifts to charities. 2. To close tax gaps. 3. To encourage charities to make use of donated funds on a timely basis. 4. To support good governance in the charitable sector.
Estimated tax that might be raised as a result of the recommendation made	The behavioural responses to this recommendation cannot be known for certain. What can be guaranteed is that the vast majority of donations to charities will be unaffected by this proposal. What will be affected are:

	• Donations from which the donor seeks to secure publicity e.g. by securing the naming of a facility in their own honour. • Donations where the owner retains control of an assets after the gift has been made e.g. as a result of gifting the ownership of share in a company into a charitable trust where control of the board of directors of that company is retained by the donee after the gift has been made. • Gifts to charities that are reluctant to make use of funds donated for charitable purposes, suggesting that they never had need for tax relief in the first place. The measure is, therefore, an anti-abuse rule to restrict the availability of tax reliefs in all taxes, but which may well have most significance in the case of inheritance tax. No estimate of tax savings that might result from these proposals can realistically be made.
Ease of implementation	The changes proposed will be relatively straightforward to implement. Experience is now available in writing targeted anti-abuse rules (TAARs) to facilitate this process.
Likely difficulties that might result from implementation	There is likely to be some public opposition to this proposal, but few large charities and few donors are likely to oppose it because it is about enhancing the reputation of the charitable sector and ending the risk of abuse.
Likely time required to implement the change	Capable of being delivered in any Finance Bill i.e. in a matter of months.
Consultation period required.	A few months, at most.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/11/02/the-taxing-wealth-report-2024-restricting-charity-tax-reliefs-to-prevent-their-abuse/

Chapter 11.0

VAT reforms – Introduction

Background

The UK's value added tax (VAT) was introduced in 1965 at the time of the UK;s ad mission into what was then the European Economic Community (the EEC), which became the European Union (EU).

In terms of tax collected, VAT is the UK's third largest tax, raising revenues of £162.1 billion in 2022-23 tax year, which sum represented eighteen per cent of all UK tax collected by HM Revenue & Customs[79].

How the UK's VAT is charged

As far as the UK is concerned, VAT is fundamentally an EU tax which is operated in the UK. There are local choices on matters such as tax rates, and more freedom after Brexit, but in essence little has changed with regard to the management of this tax since Brexit took place.

Value added tax (VAT) can be applied to a supply of goods and services in the UK in one of four different ways. Three involve a charge to VAT being added to the value of the supply made at differing rates[80]:

Rate	Rate of tax charged	Impact
Standard rate	20%	A VAT charge of 20% is added to the charge made for the supply of goods and services e.g., if the value of those goods and services is £100 then a VAT charge of £20 is added and the customer must pay £120 for their supply.

[79] Based on table A5 here: https://obr.uk/download/economic-and-fiscal-outlook-november-2023/?tmstv=1701349270

[80] https://www.gov.uk/vat-rates

Reduced rate	5%	A VAT charge of 5% is added to the charge made for the supply of goods and services e.g., if the value of those goods and services is £100 then a VAT charge of £5 is added and the customer must pay £105 for their supply.
Zero rate	0%	No VAT is added to the value of a supply, but it is deemed that it has been for the purposes of the administration of the tax.

Unsurprisingly the standard rate of VAT is applied to most goods and services.

The reduced rate of VAT is applied to domestic energy supplies and some other supplies deemed essential e.g., sanitary products and children's car seats.

Zero rating applies to food, children's clothing and some other items, mainly related to charitable activities.

A VAT registered business (which is in broad terms one is one making VAT chargeable supplies of more than £85,000 a year) has to add these charges to the sums it bills its customers and pay over the sums collected to HM Revenue & Customs. It has some recompense for doing so: it is permitted to reclaim from HMRC the cost of VAT charged to it (which means that, in effect, zero rated businesses and their customers are in receipt of a tax subsidy).

The fourth category of charge that can apply to the goods and services that a business might supply to its customers is VAT exemption. When a business supplies VAT exempt goods and services than there is no VAT charged added to the charge that they make. Superficially this looks similar to supplying VAT zero rate goods and services. It does, however, differ because a business making VAT exempt supplies cannot reclaim the VAT charged to it in the course of its trade.

VAT exemption applies to a range of goods and services including:

- Land, although this is a complex area. Domestic rents are, for example, VAT exempt whereas commercial rents can be subject to VAT.

- Insurance. Almost all insurance transactions are exempt from VAT, but many are subject to Insurance Premium Tax instead.

- Postal services provided by the Royal Mail are VAT exempt, but other equivalent services are not.

- Education and training when provided by an eligible body like a school, college or university is VAT exempt, but most that is supplied by for profit organisations e.g., professional training courses, is not.

- Finance. Most supplies of financial services are exempt from VAT but those such as bookkeeping and accountancy, debt collection, management consultancy and some investment and almost all finance and taxation advice are usually not. Banking and pension services are the main beneficiaries of this exemption.

- Health and welfare. Healthcare is a complex area for VAT. Exempt supplies include those provided by a qualifying institution like a hospital, hospice or nursing home as well as health services provided by registered doctors, dentists, opticians, pharmacists and other health professionals.

- Investment gold is exempt from VAT.

- Some sports activities are exempt, but like education this exemption largely applies to sport and related education services supplied by certain eligible bodies.

- Gaming, including betting and gaming, bingo, and lotteries are normally exempt from VAT, although the rules are complex.

- Culture. Some admission charges to public and other bodies are exempt subject to specific conditions.

- Qualifying events held by charities are VAT exempt.

- Funerals are VAT exempt, as are a range of other items of less significance.

Problems with the UK's VAT system

There are a number of problems with VAT, of which by far the largest is that VAT is a regressive tax. A regressive tax is one where as a person's income increases the amount of that tax that they pay reduces in proportion to that income even if it increases in absolute amount, i.e. their percentage tax rate falls as their income goes up. The Institute for Fiscal Studies dispute this, because the compare VAT paid with a person's consumption and not income, but they

are technically wrong to do so[81]. By definition, since VAT is a regressive tax it is one that favours the wealthy.

This bias is exacerbated by some of the exemptions available within the VAT system. In particular, exemptions for financial services and private education strongly favour the spending patterns of the wealthiest in UK society.

If the Taxing Wealth Report 2024 was a comprehensive review of the failings of the UK tax system more radical reforms of the UK's indirect tax system[82] might be proposed, including the possibility of creating a progressive indirect tax charge on total financial flows through a person's or entity's bank accounts, but there are so many immediate reforms that might benefit the UK within the existing system that more radical reforms of this sort are not being presented in this report.

As a result, just two reforms to the UK's VAT system to make that tax more progressive are proposed. The first is to remove the VAT exemption on the supply of financial services, which it is estimated might raise £8.7 billion in tax a year, and to remove the VAT exemption from the UK's private schools, which it is suggested might raise £1.6 billion in tax revenues a year.

[81] See https://www.taxresearch.org.uk/Blog/2019/05/27/the-institute-for-fiscal-studies-continues-to-spread-falsehoods-on-vat/ and associated links.

[82] I.e. taxes not directly charged on income.

Chapter 11.1

VAT – Recommendation 21

Abolishing VAT exemption for financial services

Brief summary

This chapter suggests that:

- Reform of the UK taxation system to ensure that those with the highest incomes and wealth pay their fair share of tax does not only require that direct taxes (income tax, national insurance, corporation tax, capital gains tax and even inheritance tax) be considered. It also requires that the role of indirect taxes (such as value added tax) in creating inequality as a consequence of their unreasonably subsidising the consumption of the wealthiest in society should also be taken into account.

- The VAT exemption that the financial services sector enjoys means that this tax is not charged on the supply of financial services to those who consume them in the UK.

- The UK Office for National Statistics estimates[83] that 48.6% of UK wealth is owned by the top 10% of wealth owners and 67.4% is owned by the top 20% per cent of wealth owners. In that case the benefit of this VAT exemption is going almost entirely to those in the higher echelons of wealth owners, and most likely of income earners.

83 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totawealthingreatbritain/april2018tomarch2020

- In that case the withdrawal of this relief, which has been made possible by Brexit, should now take place.

- The withdrawal of this relief would, according to HM Revenue & Customs, result in an additional £16.3 billion of tax revenue being raised a year. Against this must be offset the tax lost from insurance premium tax if VAT was to be applied to that sector. This would amount to £7.6 billion, leaving a net sum of £8.7 billion of VAT to be recovered. That change with regard to insurance premium tax is likely to be neutral with regard to those on lower incomes.

The proposal	To abolish the VAT exemption on the supply of financial services that currently exists in the UK.
Reason for the proposal	1. To increase the prospect of vertical equity[84] in UK taxation when the current exemption for VAT charges on financial services provides a benefit very largely enjoyed by the wealthiest in society. 2. To raise additional sums in additional tax revenues. 3. To reduce wealth inequality in the UK which this exemption increases.
Estimated tax that might be raised as a result of the recommendation made	There are unlikely to be many behavioural consequences to this recommendation. The business community might well welcome it. Most people will not be impacted. The cost of insurance premiums pre-VAT might well reduce, leaving overall premiums unaffected. Most people in the UK, excepting those with significant income and wealth, incur few costs of the type that this change would impact.

[84] Vertical tax equity requires that as a person's income increases the amount of tax paid on it will always increase irrespective of its source, with a progressive tax system resulting as a consequence.

	The current estimated cost of this tax relief is £16.3 billion per annum, but if the exemption on insurance was removed as a part of this recommendation insurance premium tax would have to be abolished, reducing the cost of the exemption to about £8.7 billion, which is the suggested sum that might be raised. This tax should not impact the international status of the City of London as exports of financial services in the course of business should remain zero rated for VAT purposes.
Ease of implementation	Relatively straightforward. Most financial services business are already VAT registered with regard to some of their activities meaning that this change should not be difficult to implement.
Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	At least two years notice might be required to make this change
Consultation period required.	A reasonable consultation period will be required.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/07/removing-the-vat-exemption-from-financial-services-could-raise-8-7-billion-in-tax-a-year/

Chapter 11.2

VAT – Recommendation 22

Abolishing the VAT exemption for services supplied by private schools

Brief Summary

This chapter proposes that:

- The VAT exemption on the supply of education by private schools be abolished.
- This is necessary to improve the vertical equity of taxation when the current exemption for VAT charges on private school fees provides a benefit very largely enjoyed by the wealthiest in society.
- Removing this exemption might raise £1.6 billion in additional tax revenues per annum.
- This change would be administratively straightforward.
- There are likely that there will be few behavioural consequences arising from this change.

The proposal	To abolish VAT exemption on the supply of education by private schools.
Reason for the proposal	1. To increase the prospect of vertical equity of taxation when the current exemption for VAT charges on private school fees provides a benefit very largely enjoyed by the wealthiest in society. 2. To raise additional sums in additional tax revenues.

	3. To reduce wealth inequality in the UK which this exemption increases.
Estimated tax that might be raised as a result of the recommendation made	There are unlikely to be many behavioural consequences to this recommendation, as the Institute for Fiscal Studies has noted when discussing this issue[85]. The current estimated cost of this tax relief is £1.6 billion per annum. It is assumed that this revenue would be collected if this exemption was removed.
Ease of implementation	Relatively straightforward. Most private schools are already VAT registered for some of their activities.
Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	At least two years notice might be required to make this change simply to allow appropriate management of the process to take place.
Consultation period required.	A reasonable consultation period will be required.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/15/abolishing-the-vat-exemption-for-services-supplied-by-private-schools-might-raise-1-6-billion-in-tax-a-year/

[85] https://ifs.org.uk/publications/tax-private-school-fees-and-state-school-spending

Chapter 12.0

Council tax reforms - Introduction

Background

The Taxing Wealth Report 2024 recognises that the council tax system used in England (of which variations are in use in Wales and Scotland, but not Northern Ireland) was always a hasty compromise when it was introduced in 1993, and that nothing has improved it since then.

For one pragmatic reason, however, it is not suggested that major reform of this tax take place as part of the whole package of reforms suggested in the Taxing Wealth Report 2024. That pragmatic reason is that there are many better ways of transforming the tax system as a whole to tackle the inequalities created by wealth in the UK than by expending a great deal of effort to totally redesign or even replace any of the variants on council tax now in use. If the goal of those seeking to reform the UK tax system is to tackle the issue of wealth inequality in a systemic fashion then complete council tax reform has to come a long way down the list of potential reforms, even though the tax as it currently stands is very far from ideal.

Issues to be addressed regarding Council Tax

That said, there is much that can be done within the parameters of the existing council tax in England (many of which are likely to be of some relevance elsewhere) and this chapter proposes that if the goal is to more appropriately tax high and low value properties, and in the process reduce the regressive nature of this tax, then this will require:

1. Property revaluations.
2. Increasing the number of bands used for property valuation.
3. Changing the ratio of tax charged between top and bottom bands of council tax.
4. Changing the exemptions available to those on benefits.
5. Changing the treatment of second properties.
6. Changing the treatment of vacant properties.

7. Using central government grant giving mechanisms to provide more support for local authorities in poorer areas whose revenues will fall as a result of these proposals.

The result could be a considerably fairer tax than we have at present, although that outcome would still not be an optimal solution, which would have to wait for attention when more of the issues tackled in the Taxing Wealth Report 2024 have been addressed.

Revenue consequences of proposed reforms

It is important to note that it is very unlikely that any of these proposals, which should ideally be seen as a package as a whole, would raise additional tax revenues. There is very little scope to do that within the existing structure of this tax, not least because the number of high value properties that are undertaxed at present is quite small, and any proceeds from taxing them more appropriately should be used to reduce charges elsewhere across the tax bands. The aim should be to create a fairer tax, and that is what this package of reforms is meant to deliver.

Future work

The Taxing Wealth Report 2024 has deliberately looked at reforming existing taxes in the UK. It has not considered those that might need replacement. It could be argued that Council Tax is in need of replacement. That might be the subject of future consideration.

Chapter 12.1

Reforming council tax in England

Recommendation 23

Brief Summary

This chapter recognises that the council tax system used in England (of which variations are in use in Wales and Scotland, but not Northern Ireland) was always a hasty compromise when it was introduced in 1993, and that nothing has improved it since then.

For one pragmatic reason, however, it is not suggested that major reform of this tax take place as part of the whole package of reforms suggested in the Taxing Wealth Report 2024. That pragmatic reason is that there are many better ways of transforming the tax system as a whole to tackle the inequalities created by wealth in the UK than by expending a great deal of effort to totally redesign or even replace council tax. If the goal is to tackle the issue of wealth inequality in a systemic fashion then complete council tax reform has to come a long way down the list of potential reforms, even though the tax as it currently stands is very far from ideal.

That said, there is much that can be done within the parameters of the existing tax and this chapter proposes that if the goal is to more appropriately tax high and low value properties, and in the process reduce the regressive nature of this tax, then this will require:

1. Property revaluations.
2. Increasing the number of bands used for property valuation.
3. Changing the ratio of tax charged between top and bottom bands of council tax.

4. Changing the exemptions available to those on benefits.
5. Changing the treatment of second properties.
6. Changing the treatment of vacant properties.
7. Using central government grant giving mechanisms to provide more support for local authorities in poorer areas whose revenues will fall as a result of these proposals.

The result could be a considerably fairer tax than we have at present, but not an optimal solution, which would have to wait for attention when more of the issues tackled in the Taxing Wealth Report 2024 have been addressed.

It is important to note that it is very unlikely that this proposal would raise additional tax revenues. There is very little scope to do that within the existing structure of this tax, not least because the number of high value properties that are undertaxed at present is quite small, and any proceeds from taxing them more appropriately should be used to reduce charges elsewhere across the tax bands. The aim should be to create a fairer tax.

The proposals	To reform council tax in England to more appropriately tax high and low value properties and to reduce the regressive nature of this tax. This will require: 1. Property revaluations. 2. Increasing the number of bands used for property valuation. 3. Changing the ratio of tax charged between top and bottom bands of council tax. 4. Changing the exemptions available to those on benefits. 5. Changing the treatment of second properties. 6. Changing the treatment of vacant properties. 7. Using central government grant giving mechanisms to provide more support for local authorities in poorer

	areas whose revenues will fall as a result of these proposals.
Reason for the proposal	1. To improve the horizontal equity of council taxation in England, which is currently undermined by the capping of council tax charges on the highest value properties. 2. To increase the prospect of vertical equity of taxation in England, which is seriously undermine at present by the cap on council tax charges in England and other UK constituent nations. 3. To redistribute tax charges made by local authorities. 4. To use government grant giving mechanisms to encourage greater regional redistribution. What this proposal does not do: a. Raise any significant new revenues for local authorities: it merely redistributes existing liabilities. b. Solve the long term problem of how to tax land appropriately.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation cannot be known, although it is likely to be small because relatively few properties will be affected by it. It is possible that some property will be made available for use or sale as a result of the proposals, which in view of the shortage of homes in the UK is considered beneficial. There is no intention that the proposed reforms should raise significant revenue, which by themselves they will not. They are meant to be redistributive in nature.
Ease of implementation	Relatively straightforward. The number of properties requiring revaluation as a result of this exercise will be much smaller than a full revaluation would require, and all

	will already be identified as they are now band H properties for council tax purposes. Revaluation will be greatly assisted by the ready availability of property databases and AI techniques.
Likely difficulties that might result from implementation	Few.
Likely time required to implement the change	Two or three years might be required for a revaluation exercise to take place and for resulting issues to be resolved.
Consultation period required.	Relatively short: a few months at most since the principles of the change are straightforward.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/11/14/taxing-wealth-report-2024-council-tax-reforms/

Chapter 13.0

Student taxation – Introduction

The student taxation section of the Taxing Wealth Report 2024 is unusual in focussing both on an issue that is not generally considered to relate to taxation and in suggesting a reform that will reduce government revenue. There are, however, good reasons for that.

The reality is that student loan charges are collected by HM Revenue & Customs vie the Pay as You Earn and self-assessment tax systems. They are also collected as charges on income arising during a period. In addition, given that the charges made have very little relationship to services provided either during past or present periods they behave very much like taxes.

As taxes, student loan charges create considerable horizontal and vertical tax inequities within the UK which would make many of the other recommendations in the Taxing Wealth Report 2024 hard to implement without considerable social injustice arising.

The actual sum raised by student loan charges is around £4 billion per annum at present, a sum that does not even cover the supposed loan interest charges being made on student loan accounts each year, which fact also makes clear that these loan charges have very little relationship to the cost of supplying undergraduate education to those who benefit from it.

As such the Taxing Wealth Report 2024 suggests that student loan arrangements now be cancelled. There is little chance of tax justice whilst they are retained and the greater good of society does, as a result, require this change, the consequences of which are explored in this section of the Taxing Wealth Report 2024.

Chapter 13.1

Student taxation – Recommendation 24

Reforming student taxation

Brief Summary

This chapter suggests that:

- Student loan charges are, in effect, a graduate tax.
- The sums collected by this tax are relatively insignificant, having reached £4 billion in 2022/23 and totalling just £32.7 billion over the nineteen-year period ending then at an average of just £1.7 billion a year.
- This charge creates substantial horizontal and vertical tax inequality within the UK tax system, with it being possible for a graduate on median pay in the UK to have a marginal tax rate more than twice that of a person with similar income derived from investment sources.
- Within the current structure of the so-called student loan charge there is no way in which these inequities can be addressed, and as a consequence it is proposed that student loan charges be cancelled.
- It is recognised as a consequence that more than £200 billion of supposed student debt will have to be written off. However, in practice it is expected that only 27% of students with loans taken out before 2023 will actually repay their liabilities in full, with that forecast supposedly increasing for students starting their courses after 2023 to approximately 64%, but that will be after 40 years. The reality is that much of this debt will never be repaid.

- It is already the case that much of this debt is not on the government balance sheet at present. The UK government Whole of Government Accounts for 2021 (the most recent available at the time of writing[86]) suggests that the debt was worth £87.8 billion in March 2021 when the House of Commons Library suggests that the actual debt nominally owing was slightly more than double that sum at that time[87].

- Importantly, however, it seems likely that student debt is almost wholly excluded from Office for National Statistics national debt calculations and as such the write off of this sum will have no impact on this figure[88]. The reality is that the actual cost of providing students with their education, has already been accounted for in existing debt calculations, and no adjustment to that would be required as a consequence of writing off these sums.

- The sole consequences of this change will be:

    - To reduce foreseeable tax payments by graduates by approximately £4 billion a year, but with significant likelihood that other proposed tax changes noted in this Report will be more acceptable as a result.
    - That some student loan balances that have been sold will have to be repurchased by the government, which will marginally increase the cost of government borrowing, but not in any material fashion.

- The benefits of this proposal are:

    - Disincentives to partake in higher education will be removed.
    - A level playing field will be created within the nation states of the United Kingdom where Scotland, in particular, has pursued a different approach to England on this matter.
    - Horizontal and vertical tax inequalities will be eliminated with overall improvement in tax justice resulting.

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[86] https://www.gov.uk/government/collections/whole-of-government-accounts

[87] https://commonslibrary.parliament.uk/research-briefings/sn01079/

[88] The logic for the ONS excluding this debt is explained in this blog post https://www.taxresearch.org.uk/Blog/2023/12/24/the-good-news-this-is-christmas-is-that-trillion-of-the-uks-national-debt-does-not-exist/

- The cost of higher education will be recognised as one that society needs to bear for the benefit that it supplies to everyone, and not just the student partaking in it.
- The likelihood that younger people will be able to afford to buy their own homes and contribute to pensions will increase when at present student loan repayments are a serious impediment to their prospects of taking on these government promoted activities.
- The quality of life for very large numbers of younger people in the UK will be substantially improved with a likely boost to economic confidence and so economic growth.
- it is also possible that reductions in student debt charges will encourage greater entrepreneurial activity in the UK.

The proposal	To cancel student loans charges in the UK.
Reason for the proposal	1. Student loan charges in the UK generated £4 billion of repayments in 2022/23, the highest sum ever. These sums are collected by HM Revenue & Customs as if they are tax. They had averaged £1.7 billion a year over the previous nineteen years. The loan balance outstanding is approximately £200 billion. The interest charges on this debt in 2022/23 were approximately £15 billion. Student loan charges do not represent payment for education undertaken in that case. They do not even cover the interest charges imposed. They are instead a graduate tax at 9 per cent on some graduates in the UK staring on less than median income. 2. Student loan charges are likely to be regressive as the students of wealthy parents tend not to have loans. 3. These charges are also discriminatory within the UK as Scotland has differing arrangements.

	4. Student loan charges undermine the horizontal equity both between graduates of different eras and between those who have and have not partaken of higher education when it is UK government policy to encourage people to do so. Considerable inequality arises as a consequence. 5. Student loan charges also undermine vertical equity of taxation in the UK by creating distortions in the system that are not allowed for in other taxation charges. 6. To reduce the rate of tax avoidance and tax evasion in the UK which the avoidance of these charges might encourage. 7. To consequently improve the rate of tax compliance in the UK. 8. To improve the wellbeing of graduates, many of whom are deeply financially stressed as a result of these charges and face great difficulty in buying properties or in funding pension arrangements as a result of them.
Estimated tax that might be raised as a result of the recommendation made	This recommendation might cost £4 billion in tax revenue foregone per annum, which is considered insignificant in the context of other changes recommended in the Taxing Wealth Report 2024. The behavioural responses to this change, noted in the summary of this proposal, might however stimulate economic activity that might considerably offset this cost as a result of their multiplier effects.
Ease of implementation	Relatively straightforward, although repurchasing student debts already sold might take some time.
Likely difficulties that might result from implementation	Few, excepting the repurchase of student debt already sold and the management of the claimed costs of doing that.

Likely time required to implement the change	Short.
Consultation period required.	Short.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2024/01/23/the-taxing-wealth-report-abolishing-the-uks-student-tax-would-cost-4-billion-a-year/

Chapter 14.0

Tax incentivised savings reforms - introduction

Background

In the chapter within the Taxing Wealth Report 2024 that explored the cost of providing pension tax reliefs to those making qualifying pension contributions in the UK each year it was suggested that the total cost of those reliefs now amounts to at least £65 billion per annum[89].

In another such chapter, it was suggested that the cost of Individual Savings Account (ISA) tax reliefs now amounts to at least £3.7 billion per annum, with that sum now likely to have increased considerably because of rising interest rates[90].

In total the tax system does, as a consequence, spend approximately £70 billion a year subsidising the savings of those who are already wealthy within the UK[91].

This needs to be placed within the context of UK state spending. The spend in question is equivalent to one third of the sum spent on the NHS, two thirds of the sum spent on education and exceeds spending on defence, public order and safety, transport and housing and communities[92]. The cost of tax relief given to UK savers is, in that case, a major part of UK government spending.

The problem with subsidising savings via the UK tax system

In the two recommendations made in this part of the Taxing Wealth Report 2024 these costs are recognised as the major cost that they are. However, rather than suggest further change to the tax reliefs given on those making these savings contributions, which are issues dealt with in the income tax section of this report, it is instead suggested that the receipt of either pension tax relief on contributions made by a person to a pension fund or the receipt of ISA

[89] https://www.taxresearch.org.uk/Blog/wp-content/uploads/2023/09/Restricting-pension-tax-relief-published-1.pdf

[90] https://www.taxresearch.org.uk/Blog/wp-content/uploads/2023/11/The-use-of-ISAs-published.pdf

[91] By definition, most savings are always owned by those already wealthy. For more information on wealth distribution in the UK see the background notes to this Report.

[92] Spending data from https://ifs.org.uk/taxlab/taxlab-data-item/ifs-spending-composition-sheet

tax relief on sums saved in such accounts should be made conditional upon at least part of the savings in question being made being made available to fund investment for social and economic programmes consistent with the objectives of the government granting such relief. In this way, the exceptional cost of these tax reliefs might give rise to a commensurate return for the sum expended.

One reason for making this suggestion is to ensure that a return is provided for these sums expended to those not personally enjoying the personal benefit of any significant part of these reliefs, who form the majority of the UK's population since most people in the country do not have any significant savings.

There is another reason for suggesting this reform. It is already Labour and Conservative Party policy to encourage greater direct investment by UK pension funds in the UK economy, both having noted how little direct engagement between pension funds and the underlying economy that there is. This is not least because of the marked preference of most pension funds for bond-based investment, little of which can be directly related to investment activity in the real economy, which is an issue that needs to be addressed. The suggestion that these parties make is, however, surprising because there is no evidence that UK business lacks access to capital. The sector of the economy that lacks that access are public services, and neither of those political parties suggests that public services should benefit from the vast sums saved in the UK by those enjoying tax relief on their savings. It is this issue that the recommendations made in this section addresses.

The proposals

The proposals made in this section ae related, but different. Both suggest that in exchange for the tax relief that savers secure by using tax incentivised savings structures that some or all of their funds should be made available to provide the capital required to invest in essential public service within the UK economy.

In the case of pension accounts, it is suggested that at least twenty-five per cent of all new pension contributions should be invested in the following types of project, for which strict criteria would need to be established:

- Capital projects required to deliver the climate transition if net-zero goals are to be achieved.
- New social housing.
- Other new social infrastructure.

- Related training, education and support services.

This could be achieved by investing in:

- UK government green saving bonds of the type now issued through NS&I, which is the government's own savings bank. The use of these funds is noted by the government in occasional reports[93].

- Green gilts issued by the UK government, which are now becoming more common place.

- Bonds issued by a UK government owned national investment bank that had as its purpose investment in the above noted categories of assets, on which returns could be paid by their users.

- Private sector funds meeting the above noted required specification for investment could be used for this purpose. A very clear taxonomy requiring strong evidence of the actual investment of funds raised for green purposes would be required for any company to qualify to raise funds in this way.

It is stressed that no suggestion is made that past pension contributions must be redirected in this way.

It is also the case that no conditions would be attached to the use of the remaining seventy-five per cent of contributions made by taxpayer to their pension fund during a period. They would have complete freedom to suggest the way in which these funds might be invested so long as their choice was compliant with the rules of their chosen pension fund.

In the case of ISA accounts, it is suggested that all existing ISA accounts be withdrawn from offer, although those already in existence should be allowed to continue. In their place, new ISA account would be made available. These would now be the only form available to taxpayers seeking this form of tax incentivised savings account. All the funds saved in these accounts could be subject to a government guarantee of a fixed rate return, which would vary over time, and over the duration of the savings periods for which the saver opted, but all the funds in question would then be invested in the types of savings structures noted

[93] https://assets.publishing.service.gov.uk/media/651446cdb1bad4000d4fd916/HMT-UK_Green_Financing_Allocation_Impact_Report_2023_Accessible.pdf

above that might also be used for pension purposes. Private sector funds would not, of course, be subject to a guarantee if they were opted for.

This ISA arrangement would, in effect, provide a form of hypothecated savings account to access particular forms of government bonds that would be available for savers to use to provide periodic fix rate returns, which is what many savers are looking for. The marketing appeal of the product would be that the saver would know that their funds were being used for dedicated social purposes.

In both the pension and ISA cases, the direct relationship between savings and capital investment would have been restored by these products when it is almost entirely absent from the savings market at present.

Although ISAs would appear to be short term savings products, in practice there has been an almost continual increase in funds invested in these accounts over many years and they do, therefore, provide a stable source of new capital for projects of the types noted above in the UK. A present approximately £70 billion a year is saved in ISA accounts in the UK, although some of this is recycled from old accounts. That recycling from old accounts would continue for some time under the new arrangements.

In aggregate it is possible, that £35 billion a year of funding might be available from pensions as a result of the suggestion made, and up to £70 billion a year from ISA accounts, representing in total more than £100 billion of funding available each year to support social transformation in the UK by replacing its outdated and outmoded capital stock with new capital investment suitable for a sustainable economy. This would put the text reliefs available to the wealthy to the best possible use on behalf of society. It would also provide a return to all others in society as a consequence of the grant of those reliefs.

The estimates of tax contribution to be made by these two recommendations are based on different criteria. In the case of ISAs, it is suggested that the value of the tax relief given is better directed, and so it is the value of that tax relief that us suggested to be the direct benefit in that case. In contrast, it is the value of the investment that is indicated to be the worth of the change in pension tax relief rules. The contrast in approach is made deliberately: the way in which this benefit is measured can be viewed from differing perspectives, and this is highlighted by the different measures are used.

Chapter 14.1

ISA savings reforms – Recommendation 25

Brief Summary

This chapter proposes that existing ISA savings arrangements should be scrapped because they provide almost no overall economic return to the country as a whole, very largely subsidise the savings of the already wealthy, and divert funds away from much more constructive use.

Green ISAs are proposed in place of existing ISA savings arrangements. These Green ISAs would have to be invested in either government backed savings accounts or bonds or private sector equivalent accounts, all of which funds would be required to invest the proceeds of sums raised in:

- The transition to net-zero that this country requires.
- Social infrastructure, such as new housing.
- Related activities such as education, training and appropriate support services.

The option of simply leaving cash in moribund bank accounts or of speculating funds on stock markets, which is how the £700 billion or more now saved in ISA accounts is currently used, would disappear over time as existing ISA account arrangements expired and new ones took their place. £70 billion a year goes into ISA accounts at present, the main appeal being their tax-free status.

The creation of a new source of capital for public investment from this source would as a result turn the current £3.7 billion (and rising) annual cost of subsidising such accounts from being lost money into a valuable source of funding for new investments that would in themselves generate new taxation revenues. At the very least the entire cost of the tax subsidy for these accounts would be saved by the tax paid on that new investment (with the actual sum generated likely to be very much higher). As such it is suggested that at least £3.7 billion of tax cost will be saved a year as a result of these changes.

The proposal	To end all existing ISA (Individual Savings Account) savings arrangements and to put in their place new Green ISA

	accounts, the sums saved in which accounts would be required to be invested in the green transition in the UK economy and other social infrastructure projects.
Reason for the proposal	1. To make better use of the near £4 billion tax subsidies being given to ISA account holders in the UK at present when the return to society from the provision of this subsidy is, at present, very hard to establish, and may not exist. 2. To provide a source of capital for new infrastructure investment in the UK that will meet climate and social need. 3. To raise additional tax revenues as a consequence of investments made.
Estimated tax that might be raised as a result of the recommendation made	The tax that would be raised as a result of this change would result from the increase in investment activity that it would give rise to in the UK economy, the economic multiplier effects[94] of which would be large, meaning that the tax raised as a result of new investment might be very much greater than the tax subsidy given to ISA accounts in the future. This is a complete reversal of the current situation where no value for the subsidy given is obtained and permits the suggestion that at least £3.7 billion of tax subsidy might be saved as a result.
Ease of implementation	The changes proposed will take time to implement as they have a significant impact on the profile of savings products on offer in the UK. There will also be technical issues involved in defining the taxonomy of acceptable uses of investment funds that will take time to resolve. However,

[94] A multiplier effect is a measure of the amount by which income is increased or decreased as a result of additional spending within an economy. If a multiplier effect is greater than 1 then the additional spending produced an increase in income of greater than its own amount, and vice versa. The largest multiplier effects are usually associated with healthcare spending and capital investment, where returns that are several times the size of the sum initially expended can result. In contrast, defence spending has very low multiplier effects. Some multiplier effects e.g. those resulting from spending on education are hard to measure because of the extended time periods involved.

	none of these issues represent significant technical problems to implementation.
Likely difficulties that might result from implementation	There will be resistance from the financial services industry to this change, but if they are given the opportunity to engage with and also market the resulting savings products, even if they are invested in government backed accounts, these problems should be overcome. Once introduced few difficulties should arise from implementation.
Likely time required to implement the change	A reasonable time period for this change will be required. It could not take less than two years and three may be required.
Consultation period required.	As noted, generous consultation periods will be required to get all aspects of this change right.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/11/20/the-reform-of-the-use-of-isa-funds-could-result-in-the-saving-of-at-least-3-7-billion-of-tax-subsidies-a-year/

Chapter 14.2

Changing the conditions attached to pension tax relief

Recommendation 26

Brief Summary

This chapter proposes that in exchange for the tax relief given on qualifying pension contributions made to a UK pension fund that one quarter of the contributions made should be invested in investments that would fund:

- The required climate transition if net-zero goals are to be achieved.
- New social housing.
- Other new social infrastructure.
- Related training, education and support services.

A further object of this exercise is to provide the opportunity for UK pension funds, which now have a marked preference for bond investment, to do so in a way that permits active choice by the funds and their members in the activities in which they would wish such savings to be used when at present very few bond saving opportunities make any link between funds saved and activity in the real economy.

Given that more than 77 per cent of the UK's financial wealth is saved in pension funds and at least 85 per cent is saved in tax-incentivised assets it is thought unlikely that there will be any significant adverse behavioural response to this proposal.

The proposal does not apply to any past sums invested.

It is thought that this proposal would release at least £35 billion per annum for investment in the activities noted, saving the government from having to do so as a result and providing it with a positive return on its own contribution to pension savings as a consequence. Without any other measure of the impact of this proposal being available, this sum is used for that purpose since it releases an equivalent amount for spending on alternative UK government budgets as a result.

The proposal	To require that in exchange for the tax relief given on qualifying pension contributions made to a UK pension fund that one quarter of the contributions made should be invested in investments that would fund: • The required climate transition if net-zero goals are to be achieved. • New social housing. • Other new social infrastructure. • Related training, education and support services.
Reason for the proposal	1. To make better use of the £65 billion of tax subsidies being given to pension savers each year in the UK at present when the return to society from the provision of this subsidy is, at present, very hard to establish. 2. To provide a source of capital for new infrastructure investment in the UK that will meet climate and social need. 3. To free up government budgets for expenditure on other social priorities as a consequence of investment spending on these issues being met from pension fund savings.

Estimated tax that might be raised as a result of the recommendation made	The tax that would be raised as a result of this change would result from the increase in investment activity that it would give rise to in the UK economy, the economic multiplier effects[95] of which would be large, meaning that the tax raised as a result of new investment might be significant. This is a complete reversal of the current situation where it is hard to estimate that any significant return to the UK economy arises as a result of a great deal of pension saving. Up to £35 billion per annum might be released for active investment in the UK economy each year as a result of this proposal. This is the suggested value of this proposal as it would directly relieve demand for expenditure on these issues by the government, freeing funds for other uses.
Ease of implementation	The changes proposed will take time to implement as they have a significant impact on the profile of pension saving in the UK. There will also be technical issues involved in defining the taxonomy of acceptable uses of investment funds that will take time to resolve. However, none of these issues represent significant technical problems to implementation.
Likely difficulties that might result from implementation	There will be resistance from the financial services industry to this change, but if they are given the opportunity to engage with and also market the resulting savings products, even if they are invested in government backed accounts, these problems should be overcome. Once introduced few difficulties should arise from implementation.

[95] A multiplier effect is a measure of the amount by which income is increased or decreased as a result of additional spending within an economy. If a multiplier effect is greater than 1 then the additional spending produced an increase in income of greater than its own amount, and vice versa. The largest multiplier effects are usually associated with healthcare spending and capital investment, where returns that are several times the size of the sum initially expended can result. In contrast, defence spending has very low multiplier effects. Some multiplier effects e.g. those resulting from spending on education are hard to measure because of the extended time periods involved.

Likely time required to implement the change	A reasonable time period for this change will be required. It could not take less than two years and three may be required.
Consultation period required.	As noted, generous consultation periods will be required to get all aspects of this change right.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/11/30/reforming-the-conditions-attached-to-pension-tax-relief-could-release-35-billion-a-year-for-investment-in-a-uk-green-new-deal/

Chapter 15.0

Tax administration – introduction

Introduction

Most of the Taxing Wealth Report 2024 is dedicated to the making of detail proposals for the reform of many of the UK's existing taxes so that inequalities and opportunities for abuse that are created by that system at present, the vast majority of which favour those with wealth, might be eliminated. The aim of the Report is to make clear that the claim that there are no additional funds available to a UK government to undertake reform of public services, if they might wish to take on that task, is not true.

This section of the Taxing Wealth Report 2024, on necessary administrative reforms to the UK tax system, differs from those detail proposals in that it focuses on the ways in which the management of the UK tax system should change if that system is to deliver a just and equitable tax outcome for the people of the UK as a whole, which might then turn that tax system into what is best described as a public good. Public goods are defined as a supply of goods (sometimes) and services (more commonly) that are provided without the intention of profit being made to all members of society, usually by a government.

The fact that these proposals are being made in the Taxing Wealth Report 2024 clearly suggests that the UK tax system is not being managed to best effect present. Each of the chapters within this section details ways in which this is the case at present.

Three of those chapters, concerning better estimation of the UK gap tax gap, the estimation of UK tax spillover effects, and the need for an Office for Tax Responsibility, are related. The fourth, on the reform of HMRC's funding so that it might better meet taxpayer need, stands apart from them.

The tax gap

The UK tax gap estimates the difference between the tax revenues that should be paid in the UK in a period given current taxation legislation and the sum that is actually paid.

HM Revenue & Customs are to be commended on the fact that they have been estimating an annual tax gap for the UK for longer than any other tax authority in the world[96], having begun in 2009. Unfortunately, that being noted, the data that they do report is deficient in very many ways.

In particular, HMRC understate the tax gap because they have adopted an exceptionally narrow definition of tax avoidance, which provides no true indication of the cost of this activity to the UK economy. The result is that commonplace activities, like incorporating companies to avoid national insurance charges on what would otherwise be salary payments, are not included in the tax gap estimate as tax avoidance activity, which makes little sense and understates that estimate.

In addition, with the exception of VAT, HMRC bases its estimates of tax lost almost entirely upon tax returns submitted to it, which is an inherently unreliable basis of estimation when those tax evading will always seek to avoid submitting tax returns to that authority and many hundreds of thousands, if not millions, do not do so each year. It is likely that the UK tax gap is significantly understated by HMRC as a result.

As a consequence, the Taxing Wealth Report 2024 recommends that the whole approach adopted by HM Revenue & Customs towards tax gap estimation should be revised. Only then will this measure be a reliable basis for both performance assessment and decision making on the appropriate allocation of resources and tax reform.

Tax spillovers

One of the major reasons why countries suffer significant gaps is that their tax systems are poorly designed. In particular, it is commonplace for some parts of the tax system to be undermined by other parts of that same system, or by the tax systems of other countries.

So, for example, the low rates of capital gains tax in the UK clearly undermine the effectiveness of the UK's income tax system. That income tax system is also undermined by the low rates of corporation tax in the UK, whilst the way in which dividends are treated within the corporation tax system undermine the UK's national insurance system.

All of these are called tax spillover effects. Whilst it has been known for some time that the UK's systems of tax reliefs and allowances impose significant cost on the UK Exchequer, with the benefits arising from them rarely being estimated, no regular or systematic reviews of these reliefs and allowances is undertaken to make sure they are not detrimental in this broader context to the tax system as a whole. Nor are the threats to the UK tax system from

[96] https://www.gov.uk/government/statistics/measuring-tax-gaps

outside the UK regularly reviewed even though the risks from tax havens and other locations have long been known. The purpose of tax spillover analysis is to provide this systematic review, which then explains many of the reasons why tax gaps arise. The Taxing Wealth Report 2024 recommends that regular tax spillover assessments be undertaken in the UK alongside annual tax gap estimates.

An Office for Tax Responsibility

That being said, there is a very obvious problem in having HMRC undertake reviews of its own effectiveness in managing the tax system, which is what it does at present when preparing its current tax gap estimates.

As is noted in the Taxing Wealth Report 2024, there is strong evidence to suggest that HMRC's management use gap estimates as a mechanism to support their claim to be effectively managing the UK tax system. When very clear evidence to the contrary does exist, not least within the tax gap data that they themselves produce, there is reason to doubt that claim.

For this reason, the Taxing Wealth Report 2024 recommends that an independent agency, to be called an Office for Tax Responsibility, should be created to undertake both tax gap and tax spillover assessments. This Office for Tax Responsibility should report to parliament, and not to ministers or HMRC, and should be capable of undertaking audits at the specific request of both the Treasury and Public Accounts Committee of the House of Commons in Parliament to ensure the HMRC is properly held to account for its management of the UK's tax system.

The funding of HM Revenue & Customs and meeting taxpayer need

There is one final chapter within this section of the Taxing Wealth Report 2024. This relates to reforming the funding of HM Revenue & Customs to provide a greater focus on customer service on its part.

Ever since HMRC was created in 2005 its senior management have placed too much emphasis on seeking to reduce the cost of tax collected in the UK and insufficient emphasis on collecting all tax owing. There has also been too little focus on assisting those taxpayers who need assistance to make proper payments of tax whoever and wherever they might be in the community.

In no small part it is suggested that this is because HM Revenue & Customs is partly beyond ministerial control (because of the old fiction that it reports to the Crown and not parliament, which is implicit in its name) whilst simultaneously modelling itself on the structure of a public limited company that is seemingly intent on meeting the needs of its most valuable customers (as it anachronistically and annoyingly insists on describing taxpayers as). The result is an

organisation without a focus on delivering a service to all in society. To address this the Taxing Wealth Report 2024 recommends:

- Reforming the governance of HM Revenue & Customs and making it subject to properly funded independent scrutiny by an Office for Tax Responsibility.

- That governance structure should reflect the whole taxpayer community of the UK rather than the wealthy and large business community as it does at present. That means representation should be added from:

  - The small business community.
  - Trade unions.
  - Pensioners.
  - Charities.
  - Consume groups.
  - Civil society.

- Changing the ethos of HM Revenue & Customs so that it:

  - Seeks to maximise tax revenues collected within available law.
  - Assists honest taxpayers to be tax compliant to the greatest of its ability.
  - Seeks to serve people in the community – and not just those online.
  - Is honest about its successes and failures – which its current tax gap reporting is not.
  - Represents all taxpayers and not just the interests of the wealthy and big business.

Because cost cutting, and not these issues, have been the focus of concern of HM Revenue & Customs' management to date the following have happened:

- A significant reduction in staff numbers at HM Revenue & Customs.

- The closure of almost all HMRC offices in the towns and cities of the UK, so that face-to-face advice is now virtually unavailable from HMRC.

- The subsequent closure of many of the helpline facilities that were meant to replace the local office network.

Simultaneously, HMRC has developed a belief that the UK's tax system tax can be digitally managed, largely by imposing considerable administrative and IT demands on UK taxpayers.

HMRC also seems to believe that almost all queries that a person might have when trying to manage their tax affairs can be reasonably answered by online help facilities. This, in the experience of millions of taxpayers, is wrong. The UK's tax practitioner community agrees with taxpayers on this issue. Those taxpayers are, as a result of this approach, bewildered by what is asked of them, unsure of what to do, are without help, and in far too many cases, are terrified of the consequences. What HMRC fails to understand is that taxpayers making enquiry of it are not necessarily seeking facts when making a telephone call. What they are actually seeking is reassurance, and no online help facility will provide that. People need to speak to another human being, either face-to-face or on the end of a telephone, to alleviate the concerns and stresses that they have which a necessarily complex tax system create. Only when HM Revenue & Customs appreciates this fact will they supply the support that people really need from them.

As previously noted, a well-functioning tax system should be a public good within any society. The UK is very far from enjoying such a tax system because of the actions of HMRC in making access to help for those who want to pay the right amount of tax so difficult to secure. As a consequence, in the final chapter in this section, it is recommended that HMRC reopens its network of tax offices in the towns and cities of the UK with this specific goal of providing help to taxpayers who need it.

It is also recommended the HMRC recommence its programme of visiting smaller businesses in their premises to make sure that they are compliant with their tax responsibilities and provide them with the help that they need to be so.

It is suggested that the potential £1 billion cost of undertaking these activities would be recovered many times over if this program would be put in place but that, more importantly, the UK would suffer less stress and a much more friendly environment for the business community if this were to happen.

Chapter 15.1

Tax administration – Recommendation 27

Preparing proper tax gap estimates

Brief Summary

This chapter suggests that:

- The UK should prepare proper estimates of the tax gaps[97] within its tax system.

- Because the UK's HM Revenue & Customs does not prepare comprehensive tax gaps at present a wide variety of tax losses go unreported including:

    - The loss from tax bases, like wealth, that are not taxed;
    - The cost of exemptions, allowances and reliefs within the tax system;
    - The cost of the abuse of those exemptions, allowances and reliefs;
    - The cost of tax avoidance, because HM Revenue & Customs use a very narrow definition for the identification of this abuse.

- It is likely that the UK's tax gap is considerably larger than that reported by HM Revenue & Customs.

- If a broader five-tier gap analysis that included consideration of untaxed tax bases and the cost of tax exemptions, reliefs and allowances was to be undertaken annually:

[97] Tax gaps are the differences between the tax revenues that a jurisdiction should be able to collect and the tax revenues it actually recovers during the course of a period.

- Debate on the UK's tax system would be considerably better informed;
- HMRC would manage its resources more effectively;
- Rates of tax abuse might be reduced;
- Rates of taxpayer compliance might rise;
- Taxpayer morale would increase over time.

- The cost of undertaking this exercise is small compared to the benefits that might be gained.
- Because there is no direct relationship between better estimation of the tax gap and enhanced tax yield no estimate of that benefit to be gained is made.
- Because many tax gaps are created by measures benefitting the wealthy and those with high incomes this change might have particular impact on them.
- This measure is intended to reduce the chance of illicit accumulation of wealth within the UK.

The proposal	To prepare proper estimates of the UK tax gap since those currently available: • fail to take into consideration most tax avoidance activity; • the cost of both unnecessary and inappropriate tax reliefs, and • the failure to tax all available tax bases.
Reason for the proposal	1. To improve the horizontal equity of taxation by ensuring that all taxes that should be in use to produce that desired outcome are in operation and to check that each of them is being managed appropriately so that all tax due is collected, which is a condition of achieving this goal. 2. To increase the prospect of vertical equity of taxation in the UK which is heavily dependent upon the creation of

	improved horizontal tax equity, which goal is currently undermined by the ineffectiveness of the UK's tax gap estimation that fail at present to indicate the steps required to create both horizontal and vertical tax equity. 3. To reduce the tax spillover[98] effects that are exploited by many of the activities currently not addressed by UK tax gap estimates. 4. To reduce the rate of tax avoidance and tax evasion in the UK. 5. To consequently improve the rate of tax compliance in the UK. 6. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation cannot be known because there is unlikely to be a direct link between the measurement of tax gaps and changed taxpayer behaviour. The gain comes from: • Better use of HM Revenue & Customs' resources. • Closure of tax gaps. • The creation of improved taxpayer morale as a result of the closure of loopholes resulting in a more level tax playing field, increasing the inclination on the part of taxpayers to be tax compliant[99].
Ease of implementation	Relatively straightforward, although the collection of some data will take time to arrange. The process would be improved if

[98] Tax spillovers are the negative consequences of the interactions between different tax systems or different parts of the same tax system that can often (sometimes unintentionally) reduce tax revenues and the size of a tax base.

[99] Tax compliance is seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes.

	undertaken by an Office for Tax Responsibility (see separate recommendation).
Likely difficulties that might result from implementation	Few, although political accountability for failure to address the resulting tax gap estimates might be embarrassing if not undertaken.
Likely time required to implement the change	This could be a rolling process of change meaning that full implementation could be rolled out over a number of years to some advantage as cumulative lessons learned are acted upon.
Consultation period required.	Short.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/19/the-taxing-wealth-report-2024-the-uk-needs-better-estimation-of-its-tax-gap-to-prevent-the-illicit-accumulation-of-wealth-2/

Chapter 15.2

Tax administration – Recommendation 28

Undertaking annual tax spillover assessments

Brief summary

This chapter suggests that:

- The UK should undertake annual tax spillover assessments.
- Tax spillover assessments identify the ways in which one part of a tax system undermines another part of that same tax system, or that of another country, meaning that the expected amount of tax is not paid as a result.
- Tax spillover assessments do, as a result, complement proper tax gap assessments by highlighting why it is likely that anticipated tax revenues are not paid.
- Tax spillover assessments should, by their nature, set out an agenda of legislative reforms to the tax system that will result in it working to best effect.
- If a government sets out to generate a fixed sum in revenue and tax spillover assessments can identify the best way for it to do this at lowest cost then:
    - Cost of tax administration should be minimised
    - Tax avoidance should be reduced
    - Overall tax yields should rise if tax rates are not cut
    - Tax rates could be cut
    - Overall horizontal and vertical tax equity should increase

- Taxpayer morale should rise because honest taxpayers will know that the opportunities for tax abuse will have been reduced.

- Tax spillover assessments would be best undertaken by an independent Office for Tax Responsibility and not HM Revenue & Customs, who cannot be objective on this issue.

- The cost of undertaking tax spillover assessments will be modest.

The proposal	To require the preparation of tax spillover assessments on an annual basis. A tax spillover is the impact that one part of a tax system has on another part of a tax system, whether in the same tax jurisdiction or in another one.
Reason for the proposal	1. To improve the horizontal equity of taxation by ensuring that the tax spillovers that prevent this outcome are identified with a plan of action for their removal being recommended. 2. To improve the vertical equity of taxation by ensuring that the tax spillovers that prevent this outcome are identified with a plan of action for their removal being recommended. 3. To reduce the tax spillover effects that are exploited by many of the activities currently not addressed by UK tax gap estimates. 4. To reduce the rate of tax avoidance and tax evasion in the UK. 5. To consequently improve the rate of tax compliance in the UK. 6. To raise additional tax revenues.

Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation cannot be known because there is unlikely to be a direct causal link that can be proved between the measurement of tax spillovers and changed taxpayer behaviour. The gains come from: • Identifying the weaknesses within the UK's tax system. • Identifying mechanisms to address these weaknesses. • Better use of HM Revenue & Customs' resources. • Closure of tax gaps. • The creation of improved taxpayer morale as a result of the closure of loopholes resulting in a more level tax playing field, increasing the inclination on the part of taxpayers to be tax compliant.
Ease of implementation	Relatively straightforward. The process would be improved if undertaken by an Office for Tax Responsibility (see separate recommendation).
Likely difficulties that might result from implementation	Few, although political accountability for failure to address the resulting identified tax spillovers might be politically difficult.
Likely time required to implement the change	Tax spillovers could be introduced as a rolling process of change meaning that full implementation could be spread over a number of years to some advantage as cumulative lessons learned are acted upon.
Consultation period required.	Short.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/29/the-uk-needs-to-undertake-tax-spillover-assessments-if-tax-abuse-is-to-be-beaten/

Chapter 15.3

Tax administration – Recommendation 29

Creating an Office for Tax Responsibility

Brief Summary

This chapter suggests that:

1. The governance of HM Revenue & Customs needs to be reformed. Since its formation it has used a governance structure similar to that of a public company, which is inappropriate when it is tasked with supplying a public good[100]. The result is that its governance structure needs reform to reflect the wider concerns of UK society.

2. In addition, it is recommended that the UK should create an Office for Tax Responsibility (OTR).

3. This OTR should report to the House of Commons Public Accounts Committee so that it might hold HM Revenue & Customs, HM Treasury and the Chancellor of the Exchequer to account for their management of the UK tax system.

4. The Office for Tax Responsibility should be responsible for preparing annual assessments of the UK tax gap[101] and tax spillovers[102].

[100] Public goods are defined as a supply of goods (sometimes) and services (more commonly) that are provided without the intention of profit being made to all members of society, usually by a government.

[101] https://academic.oup.com/book/39754/chapter/339816709

[102] https:/onlinelibrary.wiley.com/doi/abs/10.1111/1758-5899.12655

5. The OTR should also be responsible for recommending ways to address tax gaps and tax spillovers and for appraising HM Revenue & Customs' progress in doing so each year.

6. The benefits of having an Office for Tax Responsibility are that there would be:

7. Better governance of tax in the UK.

8. Better tax decision making in the UK.

9. An improvement in the quality of the data available to all parties on the management of tax in the UK.

10. Better use of HM Revenue & Customs' resources that should follow as a result.

11. Increased pressure arising to close tax gaps, many of which favour the wealthiest in society at present.

12. The creation of improved taxpayer morale as a result of the closure of loopholes resulting from work on tax spillovers. This should result in a more level tax playing field, increasing the inclination on the part of taxpayers to be tax compliant.
    All this being noted, it will be difficult to prove a direct causal link between tax revenues generated and the creation of an Office for Tax Responsibility and no estimate of additional tax revenues to be raised is made as a result.

The proposal	To create an Office for Tax Responsibility that would act independently of HM Revenue & Customs and be tasked with preparing annual tax gap[103] estimates and tax spillover analyses[104]. It might also be given responsibility for proposing tax legislation to address issues arising from these analyses.

[103] https://taxingwealth.uk/2023/09/19/the-taxing-wealth-report-2024-the-uk-needs-better-estimation-of-its-tax-gap-to-prevent-the-illicit-accumulation-of-wealth-2/

[104] https://taxingwealth.uk/2023/09/29/the-uk-needs-to-undertake-tax-spillover-assessments-if-tax-abuse-is-to-be-beaten/

Reason for the proposal	1. To improve the quality of tax governance by reforming the management structure of HM Revenue & Customs so that it is accountable to society in the UK, which cannot be claimed to be the case at present. 2. To enhance that accountability by creating an independent agency responsible for monitoring the effectiveness of the work undertaken by HM Revenue & Customs. 3. To improve the support made available to parliament to investigate the work undertaken by HM Revenue & Customs by making this office jointly responsible to both the Chancellor of the Exchequer and the Treasury and Public Accounts Committees of the House of Commons so that the latter might request that audits be undertaken on their behalf. 4. To improve the horizontal equity of taxation by ensuring that tax gaps estimates and tax spillover assessments are properly undertaken in the UK, with both of these being undertaken to, at least in part, address this issue. 5. To improve the vertical equity of taxation by ensuring that tax gaps estimates and tax spillover assessments are properly undertaken in the UK, with both of these being undertaken to, at least in part, address this issue. 6. To improve the quality of independent advice to the government on the creation of new tax legislation required to address weaknesses identified by tax gap appraisal and tax spillover assessments. 7. To reduce the rate of tax avoidance and tax evasion in the UK.

	8. To consequently improve the rate of tax compliance in the UK. 9. To raise additional tax revenues.
Estimated tax that might be raised as a result of the recommendation made	The behavioural response to this recommendation cannot be known because there is unlikely to be a direct link between the creation of an Office for Tax Responsibility and taxpayer behaviour could be established. The gain comes from: • Better governance of tax in the UK. • An improvement in the quality of the data available to all parties on the management of tax in the UK. • The likely better use of HM Revenue & Customs' resources that should follow as a result. • Increased pressure arising to close tax gaps, many of which favour the wealthiest in society at present. • The creation of improved taxpayer morale as a result of the closure of loopholes resulting from work on tax spillovers. This should result in a more level tax playing field, increasing the inclination on the part of taxpayers to be tax compliant. All this being noted, it will be difficult to prove a direct causal link between tax revenues generated and the creation of an Office for Tax Responsibility and no estimate of additional tax revenues to be raised is made as a result.
Ease of implementation	Relatively straightforward, although the recruitment of suitable personnel to staff this Office for Tax Responsibility will be an issue. Considerable care will need to be given to this issue if the OTR is to achieve the required independent status that will be vital to its work.

Likely difficulties that might result from implementation	Few, although political accountability for failure to address the reports of the Office for Tax Responsibility might be embarrassing if not undertaken.
Likely time required to implement the change	Two or three years to create due processes, recruit staff and start work.
Consultation period required.	Short.

A web-based version of this chapter is available here:

https://www.taxresearch.org.uk/Blog/2023/12/19/taxing-wealth-report-2024-the-uk-needs-an-office-for-tax-responsibility/

Chapter 15.4

Tax administration – Recommendation 30

The reforming of HM Revenue & Customs, its goals and funding

Brief Summary

This chapter suggests that:

- HM Revenue & Customs governance structures are no longer fit for purpose. They are based on the ethos of a public company and are focused almost entirely on meeting the needs of large companies and the wealthy. Both sectors are well represented amongst its non-executive directors; no other group in society is. That is no longer acceptable.

- HM Revenue & Customs has for too long emphasised cost control as its focus of concern rather than serving taxpayers or raising all the revenue owed to it. This has been inappropriate and has prevented the creation of a tax system suited to the needs of society in the UK.

- HM Revenue & Customs’ drive to reduce the cost of collection of tax in the UK has largely failed but has as a consequence:

    - Seriously reduced the quality of service that it supplies to taxpayers in the UK, with the quality of everything, from face-to-face services to the answering of telephone calls, to the time taken to reply to letters, all deteriorating significantly leaving many taxpayers without any of the help that they need to pay the right amount of tax that they owe.
    - Seriously reduced the number of staff at HM Revenue & Customs.
    - Reduced the average real pay of staff at HM Revenue & Customs.
    - Considerably reduced the number of tax investigations undertaken each year.

  - Lost control of some major parts of the tax gap, which is the difference between the tax that should be paid and the tax that is actually paid in a year.

- Tax gap measurement has been used by HM Revenue & Customs' management as the indicator of its success, but as has been explored in other parts of the Taxing Wealth Report 2024, the claims made with regard to the tax gap in general are open to question.

- One of the two tax gaps where it is very apparent that matters have got out of control is that for small companies, where around 30 per cent of corporation taxes owing now go unpaid each year, which is way in excess of any reasonable level of loss. The likely annual cost of this loss is now £5.9 billion per annum.

- Another tax gap that is likely to be out of control is that for the 5 million small businesses that pay their taxes via the income tax system. HMRC say this tax gap has fallen from around 32.5 per cent of these taxes owing going unpaid in 2014 to only 18.5 per cent being unpaid now. They have not, however, provided any convincing reason for this improvement in taxpayer compliance which is not matched by improvements in equivalent rates for small companies or in the overall rate of timely tax return submission, half of which returns come from self-employed business owners. The claimed current rate of loss is unlikely to be realistic in that case and an excess loss of maybe £3.4 billion is likely to arise as a result in this area, largely because HMRC has withdrawn from local tax offices that previously supported these taxpayers and from active monitoring of their onsite activities through their now largely abandoned programme of business compliance visits.

- In combination the losses from just these two tax gaps amount to maybe £9.3 billion and can be attributed to HM Revenue & Customs mismanagement of its activities in the community, whether that be through maintaining local offices where face-to-face help is available or by visiting businesses at their own premises.

- It also seems that HM Revenue & Customs' claims for the benefits of its Making Tax Digital programme seem to be seriously overstated, which is a fact repeatedly noted by the House of Commons Public Accounts Committee. The costs of creating this programme appear to be out of control. The costs it imposes on business taxpayers are excessive. Worst of all, it is likely to alienate millions of people from the tax system and most likely increase the tax gap as a result, rather than reduce it. It also makes the UK a significantly worse place in which to run a business, which is likely to impose serious costs on society at large.

- As a result, this report recommends that:

  - That HMRC reforms its governance structures and objectives.
  - HMRC restore its local office help centre presence in towns and cities across the UK, and widely advertise the availability of this support service.
  - HMRC's should restore its programme of site visits of businesses to monitor their tax compliance to cover checking both PAYE and VAT records.
  - HMRC should stop the rollout of its Making Tax Digital programme so that no business that is not VAT registered will never be enrolled in this programme.

- The cost of restoring these services will be very much less than the sums that might be raised by reducing the two gaps that have been noted to reasonable levels (i.e. those that were maintained during periods when HMRC was better resourced in the past) but since some of those sums capable of recovery have already been noted elsewhere in the Taxing Wealth Report 2024 no additional account of such recovery is made here. That said, because other tax gaps would also undoubtedly improve if HM Revenue & Customs were to re-establish its presence in UK towns and cities the likely cost of this programme – which might be £1 billion a year, or twenty per cent of the current cost of running HMRC - is not taken into account either. Nor is the likely significant gain from reducing taxpayer strain taken into consideration, or the gain from making the UK a more tax-friendly environment, to which considerable harm has been done since 2010.

The proposal	To reform the governance structure of HMRC and to restore the proper funding of HMRC so that it might: • Restore its tax office presence in the community with the specific goal of assisting those requiring help with their tax affairs. • Restoring its programme of on-site inspections of smaller business with the aim of improving tax compliance. • Abandoning its Making Tax Digital programme for all non-VAT registered businesses to reduce the

	considerable cost and strain that this will impose on those taxpayers which will likely increase the tax gap.
Reason for the proposal	This proposal is intended to: 1. Improve relationships between HM Revenue & Customs and taxpayers, which are very strained. 2. Reduce the tax gap. 3. Make the UK a more tax friendly environment in which smaller business can operate. 4. Improve taxpayer morale.
Estimated tax that might be raised as a result of the recommendation made	This recommendation might raise more than £9 billion in tax revenue from just two groups of taxpayers but to avoid risk of double counting gains no account of this is taken in overall Taxing Wealth Report 2024 totals. The cost of the recreation of an HMRC presence in the community might be £1 billion per annum. This is, again, not accounted for in Taxing Wealth Report 2024 totals because it should be more than covered by the additional sums noted in the previous paragraph.
Ease of implementation	It would take a major change of strategy on the part of HM Revenue & Customs to make this change. That might also require a change its senior personnel. Combined with the necessary recruitment and training programmes for the many additional staff that this programme will require and the need to find suitable premises, the likelihood is that this programme would take longer than the life of a single parliament to implement.
Likely difficulties that might result from implementation	The impediments to this programme will be internal within HMRC and amongst ministers who still cannot see our tax authority as a service agency that should create the public good that a well-functioning tax system represents.
Likely time required to implement the change	At least five years, and maybe longer.

Consultation period required.	Short. This is a matter for ministers and HMRC to decide upon and wide consultation would not be required.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2024/02/29/reforming-the-organisation-goals-and-funding-of-hm-revenue-customs/

Chapter 16.0

Background Notes – Introduction

Background

The whole of the Taxing Wealth Report 2024 is based upon data, economics and analysis. Whilst making recommendations for tax reform does require consideration of politics, ethics, and pragmatic economics, all such decision-making has to also be informed by data on what is actually happening in the economy at present, and what might happen if changes to the tax system were made. That in turn requires that some understanding of the macroeconomic environment in which tax decision takes place does exist. As a consequence, whilst every section of this report is referenced to the sources used that inform those data-informed decisions that are reflected in this work it was also felt appropriate to add some background notes within this report to assist the understanding of the environment in which the Taxing Wealth Report 2024 decisions have been made.

The first of these background notes or chapters is on the methodology adopted for use in this report. Those seeking to rely upon the work undertaken should take note of this.

The second note in this chapter refers to the taxes that were actually paid in the UK in the year 2022/23, which is the most recent for which we have reliable data at the time that the Taxing Wealth Report 2024 has been written. That information comes from budget reports written in November 2023 by HM Treasury and the Office for Budget Responsibility. Whilst this information tends to be updated and revised over time, because all accounting data can be subject to finessing, it is exceptionally unlikely that the relative significance of the taxes noted in this section will change in any material way.

That section makes clear that the largest taxes in the UK are:

UK taxes paid by type 2022-23

	Outturn 2022-23	% of total tax revenues
	£'bn	%
Income tax	250.2	27.8%
National insurance contributions	176.9	19.7%
Value added tax	162.1	18.0%
Corporation tax	78.6	8.8%
Council tax	42.0	4.7%
Business rates	28.3	3.2%

Several things are worth noting based on this data:

- The assumption that all tax debate should be about income tax is wrong: it represents only just over a quarter of all tax revenues.

- National insurance is a more important tax than most people appreciate, in no small part because more than £100 billion of the total contribution its makes is paid by employers, and not employees. Hidden taxes are still taxes.

- The same is also true of VAT, with few people appreciating just how much of this tax that they pay.

- For all the attention given to tax abuse by major multinational corporations over the last two decades, corporation tax is not a very significant UK tax.

- Wealth taxation comes nowhere near this list, which is why the Taxing Wealth Report 2024 is so important given the significance of wealth increases in the UK and the consequent untaxed increases in inequality that they have given rise to.

If there is one thing that is clear from this section it is that data, and how it is organised, matters. That is why the Taxing Wealth Report 2024 has taken it seriously.

The third note in this section explains the political economy of money and tax, which are intimately related issues. It is quite hard to understand the recommendations within the Taxing Wealth Report 2024 without understanding what is said in this chapter. As is said therein:

It would be very easy to issue a report on the reform of tax in the UK and to ignore in the process of doing so the role of tax in creating the power of the state, the management of the macroeconomy and within our society. This is, after all, what almost every politician, journalist and so-called tax specialist in the UK does whenever they comment upon the subject. The latter are particularly good at doing so, frequently talking about reforms that they would like to see in the tax system without ever showing the slightest awareness that tax has a very broad political, social and economic purpose within UK society.

This chapter adds that essential understanding.

So too does the next one, which explains what the UK's national debt is, and how it should be understood when at present this is about is misunderstood as tax and the true nature of money are. This chapter does then build on the foundations of the previous one to set these issues in their proper context.

Finally, there is a chapter on government money and tax flows within the economy which seeks to explain the economic impact of the recommendations made in the Taxing Wealth Report 2024, showing how they are designed to have impact on the economy by increasing the multiplier effect of the transactions that they impact upon[105].

Together these chapters add vital context to the recommendations made in this report. That is why they need to be read alongside it.

[105] Multiplier effects measure of the amount by which national income is increased or decreased as a result of additional spending within an economy. If a multiplier effect is greater than one then the additional spending produces an increase in income of greater than its own amount, and vice versa.

Chapter 16.1

Background Notes

Methodology and decision criteria

Brief summary

This chapter suggests that the Taxing Wealth Report 2024 is based on four related conceptual ideas that raise issues that need to be addressed if additional tax revenues are to be raised in the UK in a way that is fair to all taxpayers. These are:

1. The creation of horizontal tax equity, which requires that all incomes of similar amount be taxed the same sum irrespective of where that income comes from.
2. The creation of vertical tax equity, which requires that as a person's income increases the amount of tax paid on it will always increase irrespective of its source, with a progressive tax system resulting as a consequence.
3. The identification and elimination of tax gaps, which are the differences between the tax revenues that a jurisdiction should be able to collect and the tax revenues it actually recovers during the course of a period.
4. The identification and elimination of tax spillovers, which are the negative consequences of the interactions between different tax systems or different parts of the same tax system that can often (sometimes unintentionally) reduce tax revenues and the size of a tax base.

Tax spillover assessments identify the causes of tax gaps and so, in turn, the reasons why horizontal and vertical tax equity do not exist within a tax system.

Whilst addressing these issues the chapter makes clear that the Taxing Wealth Report 2024 uses microeconomic theory to justify:

a. The recognition of all sources of increase in the financial well-being of a person as being of equal value to that person and that all such sources should, as a result, be subject to equal rates of taxation. This recognition does, as a result, remove the distinction that is commonplace in tax between earned and unearned income and income, capital gains and capital receipts, all of which are considered as equal for these purposes.

b. The idea that progressive taxation is equitable because of the reducing marginal utility of each additional sum received by a person as a contribution to their financial well-being during the course of a period.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2023/09/07/the-taxing-wealth-report-2024-methodology/

Chapter 16.2

Background notes

UK taxes in 2022-23

Background

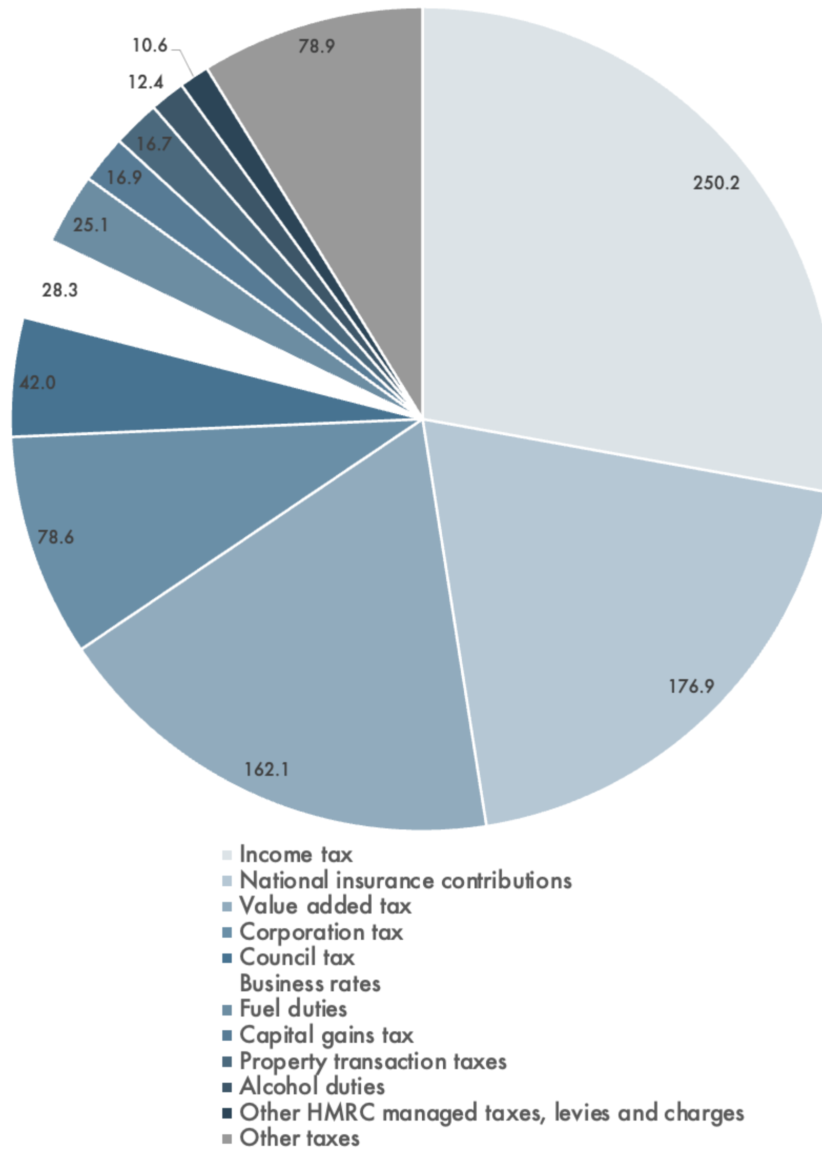
If you ask most people in the UK about taxes the one tax they will, almost invariably, think of is income tax. So do most politicians and commentators. That is why it is incredibly common to hear the claim that the wealthiest people one percent of people in the UK pay more than 25% of all tax[106]. This is based upon the proportion of income tax that they supposedly pay, when it is unlikely that they pay nothing like the same amount of any other tax. There are, in fact, very many taxes in the UK, even if none is as big in terms of revenue raised as income tax.

The data

he following chart summarises, the total sum paid for all the major UK taxes in the year to March 2023[107]:

[106] The figure is itself uncertain. It depends on the basis of calculation. What is undoubtedly true is that the top 3% or so of income earners pay 25% of all income tax, but it is most likely that they pay much less of overall tax than that.

[107] Based on table A5 here: https://obr.uk/download/economic-and-fiscal-outlook-november-2023/?tmstv=1701349270



The taxes paid are listed below the chart in order of size, working clockwise round the chart.

A more detailed list is as follows:

UK taxes paid by type 2022-23

	Outturn 2022-23 £'bn	% of total tax revenues %
Income tax	250.2	27.8%
National insurance contributions	176.9	19.7%
Value added tax	162.1	18.0%
Corporation tax	78.6	8.8%
Council tax	42.0	4.7%
Business rates	28.3	3.2%
Fuel duties	25.1	2.8%
Capital gains tax	16.9	1.9%
Property transaction taxes	16.7	1.9%
Alcohol duties	12.4	1.4%
Other HMRC managed taxes, levies and charges	10.6	1.2%
Other taxes	10.0	1.1%
Tobacco duties	9.4	1.0%
Insurance premium tax	7.5	0.8%
Vehicle excise duties	7.3	0.8%
Inheritance tax	7.1	0.8%
Environmental levies	6.6	0.7%
Emissions Trading Scheme	5.8	0.6%
Energy profits levy	4.2	0.5%
Stamp taxes on shares	3.8	0.4%
Licence fee receipts	3.7	0.4%
Apprenticeship levy	3.6	0.4%
Air passenger duty	3.3	0.4%
Bank surcharge	2.6	0.3%
Climate change levy	2.1	0.2%
Bank levy	1.3	0.1%
Digital services tax	0.6	0.1%
Electricity generator levy	0.4	0.0%
Petroleum revenue tax	-0.2	0.0%
National Accounts taxes	**898.7**	**100.0%**

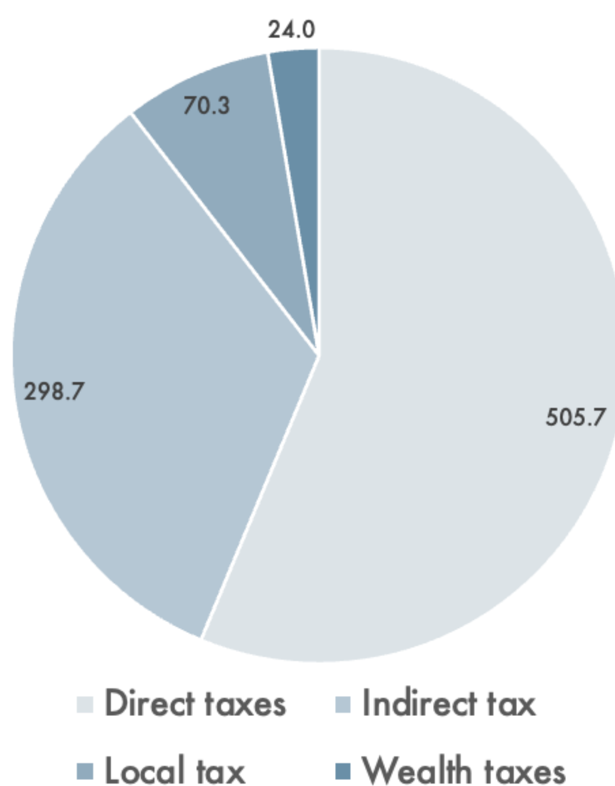
Categorisation by type of tax

Of these taxes, some are described as direct taxes. This means that they are taxed on income, whether of individuals or of companies. Income tax, national insurance and corporation tax are the most significant direct taxes.

Some taxes are local. Council tax and local business rates are by far the most significant of these.

Others are described as indirect taxes. They are, broadly speaking, charged on the value of sales made. Some are, in effect, charges. The largest of these are VAT and duties, but stamp duties can also be put in this category. Most of the smaller taxes listed are indirect taxes. Few of our taxes are charged on wealth. Both inheritance tax and capital gains tanks could be described as direct taxes, however, they might be better to described as taxes on either wealth, or income derived from wealth.

Using these categorisations, total UK tax paid looks like this:



The Taxing Wealth Report 2024 is unsurprisingly, given its title, concerned with the taxes paid by the wealthiest people in the UK. However, because there are no taxes not paid by wealthy people, that means that every tax is potentially within its scope. That said, because of the difficulties that direct taxation of wealth creates, it has limited its focus to increasing the amounts of tax that might be paid by those with wealth in the UK that can be achieved by modifying existing taxes, or by reducing tax reliefs given by law at present that reduce the amount of tax paid.

Given that the aim is on revenue raising this does, inevitably mean it has also focussed on the largest taxes in the UK as noted above.

Chapter 16.3

Background notes

The political economy of tax and money

Background

A state is defined by its ability to:

- Define and defend its borders.
- Legislate within its domain.
- Create a currency.
- Tax.

All other aspects of political economy flow from these issues. In that case, and presuming that the definition and defence of borders is not an issue of concern, the power of the state to create a currency and to tax is fundamental to its ability to create and enforce policy that meets the needs of its population. A proper understanding of the relationship between money and tax is, in that case, fundamental to the creation of successful economic policies.

Definitions

Some terms need to be defined to make sense of the discussion that follows:

- A currency is the unit of account used to describe the money in use in a jurisdiction.
- Money is a measure of debts owing denominated in the currency of a jurisdiction. Money may also be used as a measure of the value of debt-based exchanges that have taken place within an economy.

- A fiat-currency is the currency declared to be the legal tender of a jurisdiction by its government. This is a legal concept: a currency is legal tender merely because the government of a place declares it to be so using its power to legislate.

- An asset-backed currency is a fiat currency that enjoys the right of convertibility into another asset. If an asset backed currency fails it is claimed that demand might then be made by the person holding that currency to the central bank that issued it for the substitution of another asset, such as gold, in lieu of that money. In practice, if this was ever possible at any time in history it is implausible in a modern economy.

- Tax is a legal obligation contractually due to a state because economic events of a prescribed form have occurred.

- Government borrowing, if denominated in the currency of the jurisdiction in which the borrowing takes place, is a facility offered by the government of that place for the safe deposit of funds by those who wish to place them with a government owned and backed institution always guaranteed to be able to repay its debts. This is akin to a banking arrangement. It should, however be noted that like all savings arrangements, this borrowing has the consequence of removing money from circulation within an economy in much the same way as taxation does (see below). A reduction in saving has the opposite effect of increasing the money in circulation in an economy. The use of interest rates can, in that case, impact the volume of savings and as such borrowing by a government in its own currency can provide a mechanism for influencing interest rates throughout an economy in addition to providing a secure savings facility to those wishing to save funds denominated in the fiat currency that it has created.

- Government borrowing denominated in the fiat currency of a jurisdiction other than that which is undertaking this borrowing represents a promise to pay requiring that the government that has borrowed secure access to sufficient of the currency in which the borrowing has taken place by the time that repayment of the loan is due. This is a debtor relationship.

Some technical issues also need to be addressed:

- Base money is money put into circulation by the central bank of a jurisdiction. Base money is denominated in the fiat currency of the issuing jurisdiction. That money is issued into circulation as a record of the promise to pay made by the government of the jurisdiction in question that it offers in exchange for the supply of goods and services procured by it.

Examples of base money include notes and coins. It also includes the balances held by commercial banks with the central bank of a jurisdiction that represents sums spent into the economy of its jurisdiction by a government and not recovered by it from within that economy either by way of borrowing or taxation.

Base money is destroyed by the payment of tax and the issue of government debt issued in the fiat currency of the jurisdiction.

There is no theoretical limit to the amount of base currency that a jurisdiction may issue. However, to issue such currency in an attempt to procure resources in a jurisdiction already at full employment will always result in inflation unless additional tax charges are simultaneously imposed. As such there are practical constraints on the issue of base money.

- Commercial bank created money is money created by the commercial banks of a jurisdiction when advancing loans to a customer who promises to make repayment of that debt in return. Commercial bank money is destroyed by the repayment of the bank loan that created it. The practical limits to the capacity to create money in this form are:

    - The availability of borrower with the ability to make repayment.
    - The availability of capital within banks to sustain bad debts arising on debts that default.
    - Regulation intended to direct credit or to limit its availability.

- The payment of tax has to always follow the expenditure of money by the government. Given that governments with stable currencies always demand payment of tax in their own currency (so creating a demand for that currency within their economies that then requires its use in most everyday transactions in most jurisdictions) this has to be true: if the spend did not come first then there would be no money available to pay the tax due.

Consequences

If these definitions are accepted:

1. All money is debt: as matter of fact the nature of double entry book-keeping, which is the only verifiable method available to record monetary transactions, does not permit it to be otherwise.

2. Debt free money cannot exist as a result. Money on deposit is always owed to the depositor. Money owed to a bank or other person is always a debt. There is no money that exists that is not a liability of one person and the asset of another.

3. Money can only acquire value because of its capacity to settle a debt.

4. Base money acquires its value because it is used to settle tax liabilities owing, which are legally created debts intended to impart value to a currency.

5. Tax does not as a result fund government spending: it cancels the money created by government spending, whose legal creation is permitted by a properly authorised government budget.

6. All money is as a consequence intangible in its nature.

7. Tax, if not used to fund government spending acquires a range of other social purposes:

   a. To ratify the value of the currency: this means that by demanding payment of tax in the currency it has to be used for transactions in a jurisdiction;
   b. To reclaim the money the government has spent into the economy in fulfilment of its democratic mandate;
   c. To redistribute income and wealth;
   d. To reprice goods and services;
   e. To raise democratic representation - people who pay tax vote;
   f. To reorganise the economy i.e. fiscal policy.

8. Governments do not spend taxpayers' money. They do, instead, create new base money to fund their expenditure. That base money is then cancelled, largely through the imposition of taxation charges, but also through government borrowing in its own currency that has the effect of taking that base money out of circulation.

9. Banks do not lend depositors' funds to customers when advancing loans. Instead, they create new money when doing so based upon the mutual promises to pay that the bank and the customer exchange when arranging that loan. That new money created by the loan made immediately becomes a deposit with a bank that mirrors the loan made. Banks' books do always balance as a result. Money created in this way is cancelled by repayment of the loan.

10. Governments do not borrow money in their own currency to fund government expenditure. Governments do, instead, provide a safe deposit facility for their own currency whether created by their own spending or by commercial bank lending. This is a banking arrangement. The funds in question might be better thought of as part of the national capital of jurisdiction. If hypothecated for investment purposes, this might explicitly be the case.

11. Commercial banks do not require deposits to make loans to customers. Deposited funds are never loaned in this way. Depositors' funds are, instead, part of the assets of the bank, and are available to meet its obligations to its creditors in the event of the bank being unable to meet its obligations. Few depositors appear to be directly aware of this, although the unease that depositors have is reflected in the guarantee that governments like that in the UK supply to depositors holding up to £85,000 with UK banks.

Economic policy

Based upon this understanding a government should in pursuit of a sustainable economic policy:

1. Must determine the sustainable capacity of its economy, taking into consideration labour, natural, financial and manufactured capital resources.

2. Determine the potential value in use of those resources.

3. Decide on what part of those resources it might wish to procure to supply public services, and what value those services might have.

4. Determine the quantum of its resulting expenditure, also taking into consideration any desire it might have to maintain, replenish or deplete capital stocks, and taking into consideration the multiplier effects of its own spending, if material.

5. Decide the extent to which the remaining net injection of funds into the economy that it might make needs to be withdrawn from circulation by way of taxation or borrowing as a necessary means of controlling inflation if that is perceived to be a risk.

6. Determine the extent, if any, to which commercial credit creation needs to be controlled to facilitate the government's economic objectives and to consider the resulting necessary regulatory and taxation changes required to achieve this outcome.

7. Determine the extent to which it might wish to change the sums it has borrowed, considering interest rate policy as a part of this process.

8. Determine which taxes at what rates might fulfil its social, economic and environmental goals.

9. Determine which policies might minimise the impact of interest charges and other rent seeking activity within the economy as a whole in pursuit of its social policies.

10. Make clear its intentions and the reason for them.

11. Communicate these issues, including to banks and others directly impacted as a result.

12. Adequately resource those agencies such as HM Revenue & Customs that are critical to delivery of these goals.

Conclusions

What this analysis suggests is that most currently commonplace thinking, such as that which suggests that tax funds government expenditure, and that deposited funds are loaned by banks to their customers, is wrong.

The latter has been explicitly recognised to be wrong by the Bank of England and other central banks.

The former is implicitly recognised within the operation of central bank reserve accounts, which have become commonplace and material within most developed economies since the 2008 global financial crisis. See appendix 4 to this note for an explanation.

Ben Bernanke, the Chair of the US Federal Reserve, summarised this process of government created money being what government uses to deliver its policy very effectively when discussing how the money to pay for the 2008 Global Financial Crisis was found. He said[108]:

"It's not tax[payers'] money. The banks have accounts with the Fed, much the same way that you have an account in a commercial bank. So, to lend to a bank, we simply use the computer to mark up the size of the account that they have at the Fed."

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[108] Quoted at https://www.ft.com/content/5e5b2afb-c689-4faf-9b47-92c74fc07e66

And that is how the government pays for everything. It is also how most money is created. And it is why tax is essential to cancel the impact and so prevent inflation, when that is necessary. Everything else in economics is a footnote to this understanding, which is not to diminish the importance of the matters discussed in the appendices to this chapter. What is, however stressed, is that tax has to be properly understood within its true economic role if tax policy is to be correctly directed. That is the aim of the Taxing Wealth Report 2024.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2024/01/27/the-political-economy-of-money-and-tax/

Appendix 1 to Chapter 16.3 - Fiscal policy

Fiscal policy is a term used to describe one of the two most common approaches adopted by a government towards macroeconomic management of the economy for which they are responsible, the other being monetary policy.

Fiscal policy uses the management of government expenditure and taxation income to, in combination, either stimulate or suppress economic activity within a jurisdiction.

Based upon the ideas of the 20th-century British economist, Lord John Maynard Keynes, fiscal policy suggests that if a government wishes to stimulate economic activity because, for example, there is significant unemployment or under-employment in a jurisdiction, then it will spend more money into the economy than it raises in taxation revenue, with the reverse being true if it wishes to suppress activity because, for example, it thinks markets are overheated and there is a risk of inflation.

The inherent logic implicit in fiscal policy is that government expenditure in excess of government taxation revenue stimulates economic activity whilst this situation persists, with the reverse having a dampening effect on economic activity.

Fiscal policy is finessed by deciding upon the mix between government revenue expenditure, i.e. that which is incurred for immediate purposes, and government capital expenditure, i.e. that which represents investment for long-term benefit. These two types of expenditure tend to have different fiscal multiplier effects, with government capital expenditure usually generating greater long-term taxation benefits for a government than current revenue expenditure does.

Fiscal policy can also be finessed by altering which taxes are increased or lowered within the economy. Reducing taxes on those with the lowest pay tends to have a higher fiscal multiplier effect with, as a result, more and more immediate fiscal policy impact than reducing taxes for those with the highest levels of income and gains does. That is because those with lower incomes tend to spend the benefit of any tax cuts that they receive almost immediately, whilst those with higher incomes and gains tend not to spend the benefit of tax cuts that they enjoy but save them instead, producing, as a result, smaller fiscal multiplier effects. In both cases, the reverse is also true.

As the previous paragraph makes clear, because government expenditure and government taxation revenue are not independent variables because government spending does invariably give rise to activity that is subject to taxation, fiscal policy management can never be a precise science. The resulting imprecision in fiscal policy management is exacerbated by the delay that exists within any economy between the announcement of policy, the undertaking of expenditure, and the consequent changes in taxation revenue. These delays create inherent uncertainty in fiscal policy management.

Keynes created the concept of fiscal policy because he correctly noted that markets do not by themselves, and without government invention, necessarily deliver conditions of full employment in any economy. Keynes thought full employment to be the goal of macroeconomic management, particularly given the experience of economies in the inter-world-war era.

Every modern government of any size does now necessarily consider its fiscal policy when managing its affairs and those of the economy for which it is responsible. Many will, however, also seek to manage the continuing fiscal cycles of relative boom and depression that occur despite their doing so through the use of monetary policy. This seeks to control the scale of short-term economic activity by the use of artificial movements in interest rates set by the government. They do so despite the evidence of the success of monetary policy being limited. In contrast, there can be no doubt that the post-1945 growth in economies around the world has arisen because of the use of fiscal policies and the implicit desire for full employment inherent within it.

Appendix 2 to Chapter 16. 3 - Money creation by banks

Many central banks (i.e. the banks owned by governments that issue the fiat currency in use within their jurisdictions) have issued explanations of how banks, including central banks

themselves, create money by making loans[109].

This explanation, by Norway's central bank, the Norges Bank, is one of the more straightforward to follow[110]:

> *When you borrow from a bank, the bank credits your bank account. The deposit – the money – is created by the bank the moment it issues the loan. The bank does not transfer the money from someone else's bank account or from a vault full of money. The money lent to you by the bank has been created by the bank itself – out of nothing: fiat [literally means] 'let it become'.*

The money created by the bank does not disappear when it leaves your account. If you use it to make a payment, it is just transferred to the recipient's account. The money is only removed from circulation when someone uses their deposits to repay a bank, as when we make a loan repayment. The money supply is therefore only reduced when banks' claims on the rest of the economy decrease.

The Bank of England addressed this issue quite comprehensively in 2014 in its first Quarterly Review of that year, in which it noted[111]:

In the modern economy, most money takes the form of bank deposits. But how those bank deposits are created is often misunderstood: the principal way is through commercial banks making loans. Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money.

Central bank or base money is created in exactly the same way except that the central bank makes the loan and the government it serves borrows the funds that the central bank creates. The money in question is cancelled by the collection of taxation revenues or by what is called government borrowing, but which is actually deposit taking by the government in the currency it has created, with the government effectively providing a banking (or deposit taking) service to the rest of its economy as a result.

Appendix 3 to Chapter 16.3 - Multiplier effects

A multiplier effect is a measure of the amount by which national income is increased or decreased as a result of additional spending within an economy. If a multiplier effect is greater

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[109] See https://www.taxresearch.org.uk/Blog/2024/01/06/central-bankers-on-the-ability-of-banks-to-create-money-out-of-thin-air/

[110] https://www.norges-bank.no/en/news-events/news-publications/Speeches/2017/2017-04-25-dnva/

[111] https://www.bankofengland.co.uk/quarterly-bulletin/2014/q1/money-creation-in-the-modern-economy

than one then the additional spending produces an increase in income of greater than its own amount, and vice versa.

The largest multiplier effects are usually associated with healthcare spending and capital investment, where returns that are several times the size of the sum initially expended can result. In contrast, defence spending has very low multiplier effects.

Some multiplier effects e.g. those resulting from spending on education are hard to measure because of the extended time periods involved.

In the context of the Taxing Wealth Report 2024:

- Tax charges on the wealthy have low multiplier effects, because the wealthy do, by definition, save part or all of their marginal income as their income grows. As a consequence, whilst the savings of the wealthy might fall as a result of increased tax charges arising upon them proposed in the Taxing Wealth Report 2024, because savings are by definition funds taken out of circulation within the economy the impact on overall economic activity as a result of these tax increases will be limited because the wealthy will still have sufficient to spend to meet all their ongoing needs.

- Tax cuts for those on low income, and the payment of additional state benefits to people also on low levels of income, do in contrast have high multiplier effects. That is because it is very likely that the beneficiaries of these cuts or benefit payments will spend almost all that they gain almost immediately within the economy, providing an immediate boost to economic activity resulting in additional activity that is quite likely to exceed the cost of the cuts or benefits paid.

- It follows that the policy implicit within the Taxing Wealth Report 2024 of reallocating the tax burden from those with low incomes to those with high incomes will have a beneficial impact on the overall level of economic prosperity within an economy. It is, in fact, very likely that many of the economic problems that the UK currently faces arise because tax charges as currently imposed have been so heavily orientated towards those on low income, and against those with wealth, creating adverse multiplier effects.

- The focus within the Taxing Wealth Report 2024 on redirecting tax incentivised savings away from their current, largely speculative use or cash based dormancy, and into active use in providing capital for investment within the economy is again intended to change the multiplier effects on this very significant item of overall government spending when £70 billion a year is spent subsidising savings. The existing multiplier effects of this expenditure are likely to be very low indeed, because there is almost no

relationship between current tax incentivised savings and proactive investment in new capacity within the UK economy. By creating this relationship, the measures noted within the Taxing Wealth Report 2024 have the deliberate intention of significantly increasing the multiplier effect on this government expenditure, with likely considerable benefit to the overall growth and well-being within the UK.

Appendix 4 - Central bank reserve accounts and the quantitative easing process

Central bank reserve accounts (CBRAs) are held by the UK's commercial banks with the UK's central bank – the Bank of England.

As a central bank, the Bank of England is owned by the UK government. It is responsible for the day-to-day management of the money supply in the UK, for the regulation of commercial banks in the UK, and for managing the settlement of inter-bank debts in sterling, for the issue of which currency it is responsible.

The central bank reserve accounts serve two purposes. Firstly, they provide the mechanism by which payments from commercial banks and their customers are made to and from the government. Secondly, they are the mechanism used by commercial banks to make settlement of the liabilities that they owe each other when fulfilling the obligations that their customers' request be settled with customers of another bank.

These accounts restricted for the use of commercial banks and some other regulated entities in the financial services industry. It is, as a result, believed that there are only a few hundred of them.

Before 2007 there were almost no balances on the central bank reserve accounts, at least in total. The current situation where all CBRAs are, in effect, bank deposit accounts held by the UK's commercial banks as a mechanism to guarantee their ability to make settlement to each other is almost entirely a creation of the post-2008 global financial crisis.

This change was in no small part motivated by those banks refusal to trust each other to make settlement after 2007, in which year it became clear that major commercial banks could fail when none in the UK had effectively done so since the 1860s. Once banks had demonstrated their own inability to manage their balance sheets at the time of the global financial crisis it became apparent that these banks would need to hold funds with the Bank of England to prove their ability to fulfil their own promises to pay.

As a result the central bank reserve accounts of UK banks were deliberately boosted in value by the Bank of England to facilitate this inter-bank payment process. This was the way in which banks were bailed out post-2008 to prevent them failing again.

In that case the way in which these reserve accounts have been increased in value needs to be noted. Doing so requires a number of things to be understood:

1. Overall, the sum held on these accounts is not within the control of the commercial banks. The sum that each bank might hold will vary from day to day. However, that is the consequence of payments between banks varying. However, the quantum of funds held in the CBRAs as a whole is determined by the Bank of England on behalf of the government because it is the sole creator of what is called 'base money'.

2. 'Base money' is sometimes called 'central bank money'. It comprises the currency issued by central banks in the form of notes and coins plus the balances on the CBRAs.

3. Base money is created as a result of the CBRAs being used to transfer funds from the Bank of England into commercial banks on behalf of the government, to whom it acts as primary banker through what is called the Consolidated Fund, which is in effect the government's consolidated bank account, and to also receive payments from those banks that are due to the government.

4. In summary, payments from the Bank of England Consolidated Fund account to the commercial banks increases the sums held in the central bank reserve accounts and so create what is called base money. These payments are made in the ordinary course of government business to make settlement to whomsoever the government chooses to make payment to, from an old age pensioner to the sums used to redeem gilts when they reached their repayment date. Payments to the government from the private sector economy via UK commercial banks via the CBRAs include taxes due, the proceeds of new gilt issues and the receipt of the many trading sums owed to government agencies.

5. The balances on the central bank reserve accounts are a proxy for the impact of fiscal policy as a consequence.

In that case the only way in which the balances on the central bank reserve accounts can increase is by the government spending more into the economy than it receives back from it. There is no other way in which this can happen. In turn that is only possible because the government can decide to fund its expenditure with new money created on its behalf by the Bank of England. That new money that the Bank of England creates for the government is base money.

The corollary is also true. The only way in which the balances on the CBRAs can be reduced is by the government collecting more money from the commercial banking system than it

spends into the economy e.g., as a consequence of taxes paid being in excess of government expenditure, or by raising new borrowing in excess of current requirements e.g. because of quantitative tightening.

In this context, the role of quantitative easing can appear to be confusing, although it is actually quite straightforward. The pattern of the transactions involved in QE is as follows:

1. At any time it wishes the government can decide to issue new financial instruments. These can be very short term, in which case they are described as Treasury Bills, which are often redeemed in a matter of days. Alternatively, the government can issue bonds or gilts, which can have duration from a year or so to fifty years, or more. It has been government practice to only issue such bonds when there is a deficit on the government's Consolidated Fund account with the Bank of England, the aim being to restore a neutral balance on that account. This, however, is not a necessity and before 2008 it was commonplace for this account to also be cleared through the so-called Ways and Means Account that the government maintained with the Bank of England, which was an overdraft in all but name.

2. The issue of new financial instruments, of whatever their nature, results in new financial flows from the commercial banks to the government either because the banks themselves buy these instruments or, more commonly, because their customers do. The resulting funds to acquire these financial instruments flow through the CBRAs in either case since this is the financial conduit to and from the government available to the banking sector to use for this purpose. Whether the payment the commercial bank makes is as principal or agent for their customer makes no difference: the flow is from them to the government via the central bank reserve accounts. The result of the issue of new bonds is to reduce the balance in the CBRAs, meaning that the balances on those accounts created by government spending being in excess of routine income are cancelled in whole or part. Bond issuance of this sort, it is stressed, is not a part of the quantitative easing process.

3. If the Bank of England decides to undertake quantitative easing all that it does is lend funds to its legal subsidiary, the Bank of England Asset Purchase Facility Fund Limited (the 'APF')[112]. This company is fully indemnified with regard to its activities by HM Treasury and as such an agent of Treasury and is not under the effective control of the Bank. That company then uses the loan funds provided to it by the Bank of England to buy bonds issued by HM Treasury on the open financial markets. There is no reason why the bonds acquired need to be owned by the commercial banks, and it is likely

[112] https://www.taxresearch.org.uk/Blog/glossary/A/#asset-purchase-facility

that most of them will not be. This is inconsequential to the resulting movement through the central bank reserve accounts, which is represented by a flow of funds from the account of the APF to the commercial banks, which as a result increases the central bank reserve accounts balances.

4. As a result of the above noted transactions, it is apparent that bond issues cancel the CBRAs created by government spending being in excess of government income, but QE then in turn cancels that cancellation process as if the bond issue never took place, effectively restoring the CBRA balances created by expenditure exceeding income. Given that the bond that was issued is, after being repurchased using QE under the effective ownership and control of HM Treasury it is easy to argue that the bond in question has effectively been cancelled. This is the accounting position reflected in the UK government's Whole of Government Accounts, which are the only true and fair accounting representation of this transaction[113].

5. QE is then a simple way of swapping bonds that need never have been issued for base money, and quantitative tightening (QT) then reverses that swap by cancelling QE.

As a result, the reality is that QE and QT are simply window dressing and it is the excess of government spending over income and routine bond issuance since 2008 that has created the current CBRA balances.

[113] https://www.gov.uk/government/collections/whole-of-government-accounts

Chapter 16.4

Background notes

The UK's national debt and how to understand and interpret it

Brief Summary

This chapter is part of the background materials that seek to explain the basis for the recommendations made in the Taxing Wealth Report 2024.

In this chapter the nature of the UK's national debt is explained. It is suggested that:

- What is described as the national debt is, in the case of a country like the UK where the government is possessed of a central bank and a currency that it has declared to be legal tender, which currency is widely accepted for use in transactions of all sorts in that jurisdiction, and which only borrows in the currency it has itself created, the cumulative difference between the expenditure made by a government into the economy it has responsible for over time and the sums it has withdrawn from that economy by way of taxation over that same period of time.

- That national debt can be split into two parts:

    - That part which is funded by central government borrowing from its own central bank, which part represents new money creation by that government with those funds being made available for use in its economy. This part is best described as national capital since only a government has power to create and use money in this way. These sums are only repayable at the choice of the government that created them and any interest paid on them is voluntarily settled, meaning that they behave like equity and not debt in accounting terminology.

   - National savings, which are that part which is funded by the provision of safe deposit facilities for use by those wishing to save sums denominated in the currency that the government has created.

- A government that only has liabilities owed to those who have deposited funds with it denominated in the currency that it has created cannot have a national debt but can only be the provider of deposit savings facilities to those who wish to make use of them.

- There can never be a risk that those deposit saving facilities will not be repaid precisely because the means of making that repayment are solely within the control of the government that created them, which is a characteristic shared by no other savings institution taking deposits in that currency.

- The interest payable on these deposits will, assuming that the physical limitations on the scale of government expenditure noted below are respected, always remain within the control of the government making them available, and those costs should never create a constraint upon its capacity to meet any other obligation as a result.

- Attempts to repay the national debt can result in:

   - Austerity.
   - Cuts to public services.
   - Potential credit crises.
   - Reduced security for private wealth.
   - Financial instability.
   - Threats to international trade.
   - Increased risk for pension funds.
   - The value of the currency being undermined.

  Those demanding repayment need to justify their actions in this context as a result.

A web-based version of this chapter is available here:

https://www.taxresearch.org.uk/Blog/wp-content/uploads/2024/02/National-debt-an-explanation-published.pdf

Chapter 16.5

Background Notes

Tax and money flows within the economy

Brief Summary

This chapter is part of the background materials that seek to explain the basis for the recommendations made in the Taxing Wealth Report 2024.

In this chapter the money flows created by government expenditure, and the resulting demand by a government for funds, are explained through a series of six diagrams.

The intention is to show how the Taxing Wealth Report 2024 seeks to:

- Maximise the fiscal multiplier effects[114] resulting from government spending of new funds into the economy.

- Maximise the fiscal multiplier effects arising from the best choice of tax rates, meaning that those on low incomes should have low overall effective tax rates and that those on high incomes should have higher overall tax rates, which delivers this outcome.

- Provide reason why the government should encourage more direct saving in the savings products that it makes available for this purpose that together are often described as the national debt but which might be much better thought of as national savings.

[114] Multiplier effects measure the amount by which national income is increased or decreased as a result of additional spending within an economy. If a multiplier effect is greater than one then the additional spending produces an increase in income of greater than its own amount, and vice versa.

- Explain the cost of tax abuse to the government in terms of excess borrowing that it has to take on as a result, which has amounted to not less than £435 billon since 2010.

- Demonstrate the cost to the government of pension saving subsidies that might have cost £800 billion since 2010, or fifty-five per cent of the so-called national debt incurred in that period.

- Maximise the fiscal multiplier effects from saving so that new investment can be generated from this activity which has not been the case for many decades in the UK, with a resultant boost to our economy, employment, and growth as well as to the creation of the capital infrastructure needed to address climate change and other social issues in the UK.

In the process the chapter also hopes to expand understanding of the nature of the cash flows resulting from government expenditure and to slay some of the myths commonly told about that issue.

This chapter suggests that the proposals in the Taxing Wealth Report 2024 will have larger positive multiplier effects than the existing tax system does.

A web-based version of this chapter is available here:

https://taxingwealth.uk/2024/02/12/tax-and-money-flows-within-the-economy/

Chapter 17

Next Steps

What the Taxing Wealth Report 2024 has not done, and what might happen next

Introduction

The Taxing Wealth Report 2024 set out with a very specific objective to fulfil. It sought to demonstrate that any government that wished to transform the delivery of public services in the UK and, if it wished, fund necessary investment in the net–zero transition that the UK must undergo over coming decades could find the necessary funds to do so if it was willing to transform the taxation of those with wealth in the UK. It has achieved both those goals and has done so based upon the self-imposed constraint of not considering the creation of new taxes, like land value taxation or wealth taxes. Instead, for reasons of political pragmatism, it was decided to only propose reforms of existing UK taxes, tax reliefs, and allowances.

Given the limitations of this self-imposed remit, the suggested levels of potential funds that might be raised or substantial. It is suggested that maybe £90 billion worth of additional taxes could be raised. The incidence of these additional taxes would fall almost entirely on those in the top decile, or less, of income owners in the UK.

In addition, by proposing reforms to the use of funds saved in tax incentivised arrangements such as ISAs and pension funds, it is suggested that more than £100 billion of additional saved funds could be made of available to provide the capital for investment in the UK's net–zero transition. In combination, these sums exceed the £170 billion per annum by which the Taxing Wealth Report 2024 suggests that wealth is undertaxed each year in the UK at present[115].

All this being aid, there are things that the Taxing Wealth Report 2024 has not done. In particular, there are existing taxes in the UK that looking increasingly unfit for purpose. If further work to expand the Taxing Wealth Report 2024 was undertaken in the future, then considering the replacement of these outdated taxes would be high on the list of priorities.

[115] https://taxingwealth.uk/2023/09/06/wealth-is-undertaxed-by-170-billion-a-year-in-the-uk/

The following possibilities have not been considered in the Taxing Wealth Report 2024 but are noted as areas for future tax reform. They suggest that this work is not finished as yet.

National insurance

National insurance is now an outdated tax. It was created more than a century ago by a pre-First World War government that wished to create an improved social contract between the people of the UK and its government that had an implicit insurance element within it. The promise made was that those who reached the state retirement age would thereafter receive a pension sufficient for them to live upon when they could no longer work. The arrangement was intended to be self-funding.

National insurance was substantially expanded after World War II as a result of the state's social contract being expanded to offer enhanced unemployment and other benefits so that the destitution of the 1930s would not be revisited, with an additional offer of free healthcare from cradle to grave also being supposedly provided in exchange for national insurance contributions.

In practice, national insurance long ago ceased to provide all the funding required to honour these commitments, and it is now no more than another tax. As the Taxing Wealth Report 2024 has made clear, the remaining implicit social contract between the government and those in work inherent in that contract is now deeply problematic. That is not least because the basis of charging means that those who earn their income from investments, rents and other such sources do not contribute to the well-being of society in the way that those who work for a living do but they can still secure at least some of the benefits might arise despite that fact. The consequence is some particularly unjust features of the UK tax system. Perhaps even worse, this tax undermines the incentive for anyone to provide employment and so to deliver the fundamental goal of full employment that almost every government since 1945 has sought to achieve.

Many people have suggested that this problem can be overcome by merging the income tax and national insurance systems in the UK. There are, however, many problems that might arise from doing so, including some very high income tax rates compared to other countries. There would also be difficulties in finding an appropriate basis for taxation for those in retirement who do not pay national insurance contributions at present. Unsurprisingly, the many attempts to find a way to merge these two taxes have failed as a result.

Something much more radical is needed as a consequence if the substantial revenues raised by national insurance contributions (£176.9 billion in the 2022/23 tax year) are to be replaced in a way that is just and equitable and, as a result, progressive. There is a need for a progressive indirect tax as a consequence.

The most likely option available is a tax that is only now technically feasible, which would be a financial transaction tax on all flows through UK sterling bank accounts whether owned by individuals or companies, and maybe even charities and other such organisations.

To make this tax fair, the charge should start at a very low rate and remain at that level until at least UK median earnings were likely to be enjoyed, whereafter the rate should increase progressively. Arrangements to make sure that charges on transfers between accounts under common control e.g. a person's current, deposit, mortgage, loan and credit card accounts, and maybe between a person and other members of their family, would be necessary to prevent unfair charges. The same might also be true within groups of companies.

The rate of this tax, which would be on all flows including those relating to savings and investments except as noted above, would be set to ensure that those with limited financial resources would pay no more, and quite possibly less, than they do at present in national insurance. When it comes to companies, this charge might represent a turnover tax, intentionally reflecting the cost that their activities impose upon society, to which they should make an appropriate contribution. These sums would replace the employer's national insurance charge. It is likely that this would most likely favour those who employ large numbers of people since part of the overall employer's national insurance liability might then pass to those who generate their incomes without providing the social benefit of employment. This also addresses some of the problems arising from AI and the increasing use of robots in the economy.

Further details of this proposed radical tax reform that would need considerable work to develop were as a result outside the scope of the Taxing Wealth Report 2024.

Council tax

As the section of the Taxing Wealth Report 2024 on council taxation makes clear, the current council tax in the UK provides little opportunity for radical reform, or for the raising of additional tax revenues because there are far too few high valued properties for any such reform to have any significant impact on the future funding of local authorities in this country.

That said, any system of local taxation within the UK is inherently difficult because of the considerable variation in population density throughout the country as well as the enormous variations in both income and wealth between the UK's regions and countries. These variations necessarily require that those parts of the UK that are affluent must raise taxation revenues in excess of local need for redistribution to those parts with below average incomes

and wealth, and this necessarily undermines the scale of local autonomy that might be attainable by any local, devolved or regional government in the UK.

It is exceptionally unlikely that land values taxation could overcome these problems. That tax, which makes a charge on the deemed rental value of land, whether it is in use or not, has considerable problems inherent within it, including the fact that rental value does almost invariably reflect local levels of income since rents must be paid out of them. The problems noted above are, therefore, replicated in this form of taxation and mechanisms to address these deficiencies would, therefore, still be required.

Any mechanism for creating greater local governments fiscal autonomy must, therefore, be more broadly based than the apparent fiscal constraints of local taxation might imply. This necessarily means that instead of the debate on local government financing concentrating on local taxation alone, it must also consider:

- Which parts of government services should be devolved to local authority control whilst giving those local authorities some degree of flexibility in deciding on the relative priority of these matters in their local area.

- Ways in which the central government macroeconomic requirement to tax government-created money out of circulation can be reconciled with a desire that local governments have autonomy with regard to the provision of services in the area for which they are responsible. This might require that a fixed proportion of total government spending be passed to local control without a locally based capacity to raise revenue being required.

- That capital expenditure budgets, and mechanisms to borrow to fund such expenditure, be devolved to local governments. This would also require that the necessary apportionment of responsibility for servicing debt be agreed upon. However, to provide long term stability to local government investment programmes constraints that might otherwise be created on local authorities as a consequence of central government macroeconomic monetary policy will need to be resolved. This might necessarily require the supply of long-term credit to local governments from central government at fixed rates, with central government then assuming the responsibility for varying interest rate risk.

- Enhanced mechanisms for the accountability of local government both within authorities themselves, and to those who elect them, as well as to central government. All of these mechanisms must be capable of comprehension by lay persons given that they are the people most likely to be elected as local politicians.

- Arrangements for the delivery of minimum service guarantees by local authorities might be necessary.

As is apparent, these are complex issues and that is why this topic could not be addressed within the scope of the Taxing Wealth Report 2024.

Inheritance and wealth taxes

As the Taxing Wealth Report 2024 has made clear, wealth taxes always look to be attractive in theory. However, as any experienced tax practitioner might confirm, the reality is that agreeing asset valuations for taxation purposes in the absence of actual market data is complicated, time-consuming, expensive and the subject of extensive negotiation with HM Revenue & Customs before agreement is reached. Any wealth tax would necessarily require vast numbers of these negotiations be entered into on a recurring basis, many of them being required only to prove that a person did not have a wealth tax liability. This would, as a consequence, be a hopelessly inefficient, and potentially unjust, basis for imposing a tax charge. That is why the Taxing Wealth Report 2024 has placed so much focus on securing better taxation of the income and gains arising from wealth instead of on taxing wealth itself. These complications would continue if a wealth tax was to become a regular and recurring tax and as such the likelihood of a successful wealth tax being introduced is extremely low, however politically attractive such a tax might look to be to some.

As is noted in the Taxing Wealth Report 2024, the only approximation to a wealth tax that the UK currently has, which is its inheritance tax, is supposedly the most unpopular tax in the UK. This is hard to understand when only 4% of all estates of people dying in the UK are likely to be subject to it at present, but the media persists with this view.

As the Taxing Wealth Report 2024 makes clear, this tax could not only be made significantly more progressive than it is at present by re-organising the rates at which is charged, but some of the major reliefs and exemptions available within it, particularly with regard to business and agricultural property and some other forms of preferred gifts, could be significantly reformed, closing in the process many of the loopholes currently largely exploited by those with significant wealth.

That being noted, thereafter and in the necessary absence of a wealth tax, inheritance tax needs to be subject to further reforms that have not been the subject of consideration within the Taxing Wealth Report 2024 because of the likely time that it would take for such reforms to be implemented.

The first of these reforms would be to extend the time period prior to death during which an inheritance tax charge might apply. There would be an increase in tax justice if this were to be done.

A second reform would be to look through the trust arrangements that are now used by the wealthiest people in the UK to avoid inheritance tax charges. Many of these arrangements will have been in place for a considerable period of time. That only adds to the offence taken by many at the use of these arrangements since they have contributed to the massive inequalities in wealth in the UK that still exist. To achieve this goal a system of attributing the ownership of property within trusts to real people resident in the UK will be essential so that they might be taxed on the disposal of these assets. This will take time to both develop and be implemented.

Finally, a system of inheritance tax discounts might be appropriate if estates were more widely distributed rather than being concentrated in the hands of one or only a few beneficiaries at the time of a person's death. This would have the advantage of making inheritance tax behave in a fashion akin to a gifts receipt tax when the latter is very unlikely to work in practice (even if it is, once again, an excellent idea in theory) by diversifying the ownership of wealth in the UK.

More work is required on these issues and as a result they have not been addressed in the

Value added tax

The Taxing Wealth Report 2024 has considered problems inherent in some of the tax reliefs, exemptions and allowances permitted within this tax, but has not addressed all the remaining biases and distortions that it can create within the UK economy, particularly when some of those allowances and exemptions are exceptionally poorly focused. Addressing these issues requires much more work than was possible within the scope of the Taxing Wealth Report 2024, particularly when it comes to integration of any proposed changes with reform of the benefits system which might well prove to be necessary if the Scandinavian approach to this issue is considered. Consideration of these issues was, as a consequence, necessarily deferred.

Integration with the benefits system

One of the highest goals for any taxation system would be the creation of a seamless transition between taxation and benefits, meaning that these two systems could be fully integrated so that a person might move without economic stress arising between being a taxpayer and the recipient of benefits dependent upon their level of income and personal circumstances.

In reality, no practical method for achieving this goal has yet been identified, nor have any of the mechanisms intended to overcome these integration problems, such as the payment of a universal basic income, offered methods of integration that do not in themselves create significant impediments to the effective operation of the overall tax system. In that particular case, the requirement that considerably higher rates of income tax than are currently commonplace in the UK or any comparable country if a genuine basic income were to be paid would be a major impediment to progress.

Because of the complexity of this process of integration, no attempt to address it has been made within the Taxing Wealth Report 2024. If this work was to be extended it would, however, be necessary to consider these issues.