UK Health Alliance on climate change
Cite this as: *BMJ* 2022;379:o2763
http://dx.doi.org/10.1136/bmj.o2763
Published: 15 November 2022

Should the UK have a wealth tax? Almost certainly

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I'm strolling with a friend when we start a conversation on a wealth tax. Both of us are left wing and agree that it must be a good idea to have a wealth tax. My friend says that lots of other countries have them and that there is no reason not to have one. Despite my gut feeling that a wealth tax must be a good thing when the country has severe financial difficulties and enormous disparities in wealth, I feel that I need to know more about the pluses and minuses of a wealth tax. Remembering my time at the Stanford Business School, I worry that although a wealth tax seems attractive there might be unintended consequences.

Back home searching for information, I discover the 2020 report of the *Wealth Tax Commission*, which comes from the London School of Economics and the Warwick Business School.[1] The Commission consulted a wide range of experts, including people with practical experience of implementing wealth taxes, and claims that the half a million words of evidence "represents the largest repository of evidence on wealth taxes globally to date."

The main conclusion of the commission is that "when we face the largest public finance crisis since the Second World War" (which is worse now than when they reported) there is a strong case for a one-off wealth tax. They do not recommend an annual wealth tax, and I learn that—despite what my friend told me—many countries have abandoned annual wealth taxes. *Wikipedia* reports: "In 1990, about a dozen European countries had a wealth tax, but by 2019, all but three had eliminated the tax because of the difficulties and costs associated with both design and enforcement." It's important to note, however, that these countries mostly had annual wealth taxes.

A wealth tax is the total value of your assets minus any liabilities. Your assets would include cash, property, investments, pensions, and equity in companies. A mortgage or loan would be a liability. The commission recommends taxing individuals, so a couple that had wealth of £2 million would be taxed on wealth of £1m each.

The British public favours a wealth tax to raise government revenue over alternatives like increasing income tax or value added tax. The public also favours introducing a new wealth tax over increasing what are taxes on wealth like inheritance tax, capital gains tax, or council tax.

The public were asked about the criteria for a new wealth tax, and the commission distilled four objectives from their responses:

1. The tax should raise substantial revenue

2. It should do so efficiently

3. It should also be fair

4. The tax should be difficult to avoid

The commission the added a fifth objective of its own:

5. A wealth tax should achieve these objectives better than the alternatives

The commission recognised that deciding the threshold at which tax should be paid and the rate of tax are quintessential political decisions, and instead of recommending a figure it gives a table. A 1% tax on individuals with wealth of £1m would mean just over 3 million people being taxed and would raise £147 billion at an administrative cost of £4 billion to the taxpayers and £1 billion to the government. A threshold of £500 000 would mean 8.2 million people being taxed and raise £262m.

An alternative model would be to have a progressive tax with, for example, the rate being 0.8% with those of wealth of £1m, 1.6% for £2m, 2.4% for £5m, and 3% for £10m. This would raise £250 billion. (For interest, there are 22 000 people with wealth of £10m or more, 83 000 with £5m or more, and 626 000 with £2m or more.)

To raise £250 billion in other ways would require, for example, 9p on the basic rate of income tax or 6p on VAT.

A one-off wealth tax, the commission concludes, is economically efficient as it does not distort behaviour, whereas income tax discourages work and capital taxes reduce investment. A wealth tax is progressive, and most people even with a low threshold pay nothing. A well designed tax is hard to avoid, and one feature is that the tax would have to apply the day it was announced or a day soon after, giving people no time to move their wealth. (Perhaps the new government will surprise us and announce one.) The tax would be based on market value, meaning that people would have to have their houses valued.

One group for whom a wealth tax would present difficulties would be those with a big asset, probably a house, but little income, perhaps only a pension. These people would be able to pay the tax over time, perhaps even after they had died.

An annual wealth tax would not attempt to raise as much money in one year as a one-off wealth tax. The commission advises against an annual wealth tax for three main reasons: administrative costs are higher; deferral on those with low income is more difficult because a further tax comes in a year; and people would have more scope to avoid the tax—for example, passing wealth to others in the family or moving abroad.

Whether or not an annual wealth tax is economically efficient is disputed on theoretical grounds, and empirical evidence is lacking. Although there is a widespread belief that economists oppose wealth taxes, the commission reports that a recent poll of the world's leading academic economists found that two thirds thought a wealth tax would be effective and half said it would be "an effective way to improve public finances after the covid-19 crisis."[1] This poll asked about an annual wealth tax; support, as with the commission, is likely to be higher for a one-off tax as it doesn't lead to economic distortion.

Despite concerns about an annual wealth tax, the commission says that "An annual wealth tax would only be justified in addition to these reforms if the aim was specifically to reduce inequality by redistributing wealth." Many people would think that a worthy aim in itself, including perhaps a government interested in "levelling up" (or does that phrase exclude redistribution?) The commission advises, however, that if redistribution is the aim, it may be better achieved through redesign of existing wealth taxes.

My anxiety about unintended consequences were justified, but this well presented, evidence based report from the *Wealth Tax Commission* convinces me that a one off wealth tax would be a good thing. For the record, mostly because of my London home I would have to pay the tax.

Competing interests: none declared.

Provenance and peer review: not commissioned, not externally peer reviewed.

1 Advani A, Chamberlain E, Summers A. Wealth tax commission. A wealth tax for the UK. https://www.wealthandpolicy.com/wp/WealthTaxFinalReport.pdf