UNIVERSITY OF GREENWICH

PEGFA

Policy Brief

The case for a progressive annual wealth tax in the UK updated

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Abstract

This paper analyses the revenue potential of a progressive annual net wealth tax in the UK. A progressive net wealth tax is a tax on the stock of net wealth that is designed to raise revenues primarily from the wealthiest individuals. We present a baseline progressive net wealth tax that only taxes the top 1% wealthiest individuals. Individuals with net wealth above £2.2 million (the top 1%) are taxed at a marginal rate of 1%; above £3.6 million (the top 0.5%) at a marginal rate of 2% and above £11.2 million (the top 0.1%) at a marginal rate of 4%. We estimate that in 2018-2020 this tax would have raised between £46 and 78 billion a year after administration costs. It would raise £46 billion if 50% of the tax is avoided, £69bn if 25% of the tax is avoided, and £78 billion if 15% of the tax is avoided. This is equivalent to roughly 8-12% of total tax revenues taken by the UK government in that year. This work updates a previous working paper from 2021 (here).

Year: 2024

No: PB31

Keywords: wealth inequality, wealth tax, fiscal policy

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Acknowledgements: The research grant from Unite the Union is gratefully acknowledged

1. Introduction

Progressive net wealth taxes are an idea that have moved from the margins of economic debate to becoming serious policy proposals. In 2018, the OECD put forward a case for a net wealth tax "only levied on the very wealthy" (OECD, 2018: 3). Pressure is growing at the G20 for a minimum 2% tax on global billionaire wealth. Moreover, the unprecedented fiscal stimulus following COVID-19, and the cost-of-living crisis have intensified interest in how to generate revenues for governments.

This paper analyses the revenue potential of a progressive net wealth tax, i.e. a tax on the stock of net wealth (assets minus liabilities, henceforth referred to as wealth) that is designed to raise revenues primarily from the wealthiest individuals. We propose a baseline progressive tax model that only taxes the top 1% wealthiest individuals. It only taxes the top 1% wealthiest individuals who make up 635,433 individuals in total. For the latest year of available data (2018-2020), individuals with wealth above £2.2 million (the top 1%) are taxed at a marginal rate of 1%; above £3.6 million (the top 0.5% threshold) at a marginal rate of 2% and above £11.2 million (the top 0.1% threshold) at a rate of 4%.[1] The bottom 99% do not pay any wealth tax. This baseline model aims to capture the revenue potential of a progressive wealth tax in the UK.

The revenue potential of such a progressive wealth tax is substantial. We estimate that our baseline model would raise roughly £46-78 billion a year after administration costs and tax avoidance and evasion: £46 billion if 50% of the tax is lost to avoidance and administrative costs, £69bn if 25% of the tax revenues are lost, and £78 if 15% of the tax revenues are lost. This is equivalent to roughly 7-12% of total tax revenues taken by the UK government each year. As these estimates are made with 2018-2020 data, and wealth inequality at the top has substantially increased since then (Tippet and Wildauer, 2024), revenues might be higher than reported here.

The structure of the paper is as follows. The first section outlines the design features of the wealth tax, including rates and thresholds, who will be taxed, what will be taxed and valuation. The second section outlines the data. The third section presents the simulated revenue projections for the progressive wealth and section six concludes.

2. Tax Design

The Wealth Tax Commission sets out useful criteria for the design of a new wealth tax. This section goes through each of these issues in turn.

2.1 Thresholds and Rates

A progressive wealth tax has two features: increasing marginal tax rates and high thresholds. The exact thresholds and rates that could be applied however are varied. Senator Elizabeth Warren in the US put forward a proposal to implement a 2% marginal wealth tax above $50 million and a 3% marginal wealth tax above $1 billion. Senator Bernie Sanders proposed a 1% marginal tax rate above $32 million, 2 percent above $50 million, 3 percent above $250 million, 4 percent above $500 million, 5 percent above $1 billion, 6 percent above $2.5 billion, 7 percent above $5 billion, 8 percent above $10 billion. Piketty (2020) proposes a tax schedule which has an initial low threshold but increases dramatically. The Wealth Tax Commission do not advise on any specific rate, although the options they present tend to be at lower rates and lower thresholds. The most progressive schedule they present is a tax that has a 3% tax rate on individuals with wealth above £10m.

Table 1 outlines the thresholds and tax rate for the progressive wealth tax of this paper. To put the top rate marginal tax rate of 4% into perspective, on average the top 200 families in the Sunday Times Rich List have seen an average annual real growth rate of over 5% each year over the last 30 years (Tippet and Wildauer, 2024). In other words, a top tax rate of 4% would still allow for a real return of 1% for the very wealthiest individuals on average.

[1] At the household level, these thresholds are top 1% is £4.01m, top 0.5% is £6.59m and top 0.1% is top £21.06m.

Table 1

Threshold and Tax Rates for Progressive Wealth Tax

Tax Band Threshold Description	Low Tax Band Threshold Individual Wealth (£ millions)	Low Tax Band Threshold Household Wealth (£ millions)	Marginal Tax Rate (%)	Number of individuals in band
99th– 99.5th percentile	2.2	4.01	1%	317,691
99.5th – 99.9th percentile	3.6	6.59	2%	254,194
> 99.9th percentile	11.2	21.06	4%	63,548

Source: Wealth And Assets Survey 2018-2020 adjusted using Vermeulen (2018) method and the Sunday Times Rich List

2.2 Who will be taxed? Individual vs Household

The second issue is to clarify who will be taxed – the individual or the household? For this simulation, we implement taxation based on the individual following the recommendations of the Wealth Tax Commission (Chamberlain, 2020) given the following reasons: firstly, as an issue of fairness, persons within the same household may not have access or control over the other household member's wealth, and therefore should not be taxed on it. Secondly, households consist of cohabitees in addition to spouses, civil partners, and couples. It is unclear whether these should also be taxed and on what basis. Thirdly, responsibility for non-compliance becomes complicated if one member of the household has not filed accurately. Should all household members be punished and under what basis? Fourthly, an annual wealth tax may distort people's decisions about living together. Fifthly the UK personal tax system is currently more oriented to an individual rather than a household basis.

2.3 What is taxed? Defining the tax base

A progressive wealth tax for the UK should be as broad as possible and include all assets: property (first and second homes), pension wealth, financial wealth, physical wealth, and business wealth. As the Wealth Tax Commission argue there are two fundamental reasons for including all assets in the tax (Chamberlain, 2020: 42). The first is the issue of horizontal equity: an individual with the same wealth should face the same tax rate regardless of how they hold that wealth. The normative point here is that wealth is about control over economic resources, and this is the feature that determines how much tax one should pay, rather than whether someone is a private business owner, a lawyer with a pension or an art collector.

Secondly, exempting asset classes has been the key historical reason behind the failure of wealth taxes in the past, as exempting an asset creates an opportunity for avoiding the tax. Individuals shift their wealth into the exempt assets, thereby reducing the tax base and revenue potential of the tax in addition to creating resentment from individuals who are unable to perform such portfolio reallocation Chamberlain (2020: 42). That said, including all assets can create liquidity and valuation problems, particularly for pension and business wealth these are discussed in further detail below.

2.4 Frequency of the tax: one-off versus annual

As one of the stated aims of a wealth tax is to both reduce inequalities and increase public revenues, we propose an annual rather than a one-off wealth tax. A one-off wealth tax would only temporarily impact the distribution of wealth and likely do little to shape the distribution in the long run. Perret (2012) outlines how two of the three problems that inflict annual wealth taxes are limited in the case of taxes with high thresholds. Regarding distorting economic behaviour, Perret argues that there is limited empirical evidence supporting negative economic costs. Furthermore, the administrative costs of taxes with high thresholds are greatly reduced due to the fact the number of households whose wealth needs to be audited and evaluated are reduced. This therefore leaves the issue of behavioural response avoidance and evasion. To model this we assume that either 15%, 25%, or 50% of the tax revenues are lost to avoidance/evasion.

2.5 Valuation

Following the Wealth Tax Commission, we propose that assets should be valued based on their open market value (OMV), which is the price the asset would expect to be fetched if sold on the open market (Advani, Chamberlain and Summers, 2020). The reasons in favour of an open market valuation is that this represents "the consumption that someone could finance if they chose to sell the asset" (Daly and Loutzenhiser, 2020: 1). Moving away from OMV increases the opportunity to avoid the tax

by reallocating assets to harder to value assets (Poterba and Weisbenner, 2003). Furthermore, OMV is already used for Inheritance Tax and Capital Gains tax.

For many assets market values are readily available either because they are publicly traded (e.g. shares), insurance contracts (art) provide information about their value or large numbers of regular transactions assist in valuation (real estate). Nevertheless, valuing assets at market rates can be challenging. Privately held businesses are one such example. However, countries with long standing wealth taxes such as Switzerland and Norway show that practical solutions can be found. The starting point is to value private businesses based on discounted profit streams as is standard practice in finance and accounting. In addition, Saez and Zucman (2020) put forward an innovative solution to the problem: Consider a wealthy household who own most of their wealth in a private business in the UK. As there is not a current market value of the private business, His Majesty's Revenues and Customs (HMRC) must first put a value on the business. One of the big potential delays that threaten a wealth tax is legal and bargaining issues between HMRC and the wealthy individual over whether the value of the business is correct and reasonable. To solve such disputes, HMRC could ask for the business owner to either pay the tax in cash or in the equivalent number of shares at the valued rate. If the business owner believes the business is overvalued, they will be happy to pay in shares rather than in cash. The tax authority could then sell the shares to the highest bidder on the open market. As Saez and Zucman (2020) argue, this effectively creates a market for the business assets, maintaining the principle of open market valuation. Also, as the number of individuals in a progressive wealth tax schedule with a high threshold is relatively small, the costs of administering such a system is also reduced.

3. Administrative Costs, Liquidity and Behavioural Responses

3.1 Administrative costs

As discussed above, annual wealth taxes require annual valuations. However, for a progressive wealth tax with high thresholds the number of people to be valued declines and so administration costs decline.

3.2 Liquidity Concerns

So called asset-rich cash-poor individuals are persons with large enough wealth holdings to incur a significant tax liability but without enough liquid assets to pay it. In general, the wealth tax design proposed in this policy brief with an exemption threshold of £2.2 million, ensures these cases to be rare exceptions. Private business assets are examples discussed in the literature which might be held by asset-rich cash-poor individuals especially in cases of high capital values but poor profitability, such as farms or start-ups (Loutzenhiser and Mann, 2020; Clark and Fu, 2020). This is the suggested reason why trading businesses and farms have been exempted from inheritance tax since 1992. However low profitability would also imply low valuations and therefore low or no taxation at all (if the owner's overall wealth falls below the top 1% threshold), so the justification for this exemption is not convincing. Furthermore, the option of paying in shares discussed by Saez and Zucman above partly solves such liquidity problems, as it enables those who are cash strapped to pay in business shares rather than cash.

In general, high exemption thresholds such as the 99th percentile proposed in this policy brief, solve many of the liquidity problems that afflict small business owners. A high threshold reduces the likelihood of liquidity constraints, as individuals with high wealth start paying tax only after a certain point, and those with very high wealth are less likely to face liquidity constraints. Furthermore, the share of pension wealth in total wealth is also likely to be less signficiant for households with wealth above 5 times the average wealth. Loutzenhiser and Mann (2020: 13) provide an overview of liquidity issues and highlight that liquidity concerns are greatly reduced for business owners when the tax threshold is increased. For example, they argue that when the tax threshold is £250,000, over 87,000 private owners are estimated to be at risk of experiencing liquidity difficulties in paying taxes. When the threshold is increased to £5 million, this is reduced to only 12,744.

Lastly, Loutzenhiser and Mann (2020: 22) discusses a potential solution to those households that might still have illiquid pension assets and are still liable for the tax. Firstly, they propose a tax withholding mechanism on defined contribution (DC) pension funds in combination with a proxy tax on defined benefit (DB) pension funds. The withholding mechanism could work by effectively withholding the amount of tax from the pension fund and allowing the pension fund/trustees to pay the withheld funds on the taxpayer's behalf. This would be easier to administer for the DC pension funds, as there is a clear identifiable pot of pension wealth that each individual owns. Regarding DB pensions, Loutzenhiser and Mann (2020: 23) argue that instead of withholding funds, a proxy tax on the pension fund itself could be levied, which would then be passed on to individuals in a reduction in benefits made payable under the scheme. They cite evidence from the Pension Levy imposed by Ireland from 2011-15 as evidence of how such a system could work (Chamberlain, 2020: 42). That said progressive wealth taxes are likely to face less issues to do with pension wealth due to the lower share of wealth held in this asset by the wealthiest households, as mentioned above.

3.3 Behavioural responses: avoidance and evasion

Tax avoidance and evasion by the wealthy pose the most serious issues for a progressive annual wealth tax. Advani and Tarrant (2020) summarise the ways that the wealthy can avoid and evade tax through gifts and fragmentation, offshoring, migration, and lobbying for exemptions.

Fragmentation, as discussed above, occurs when individuals split their wealth between spouses and children to bring individual wealth below the tax threshold. As Advani and Tarrant (2020: 18) note, "the more progressive the tax schedule, the greater the tax advantages that can be obtained by transferring wealth to those facing a lower marginal rate". Empirical evidence suggests that individuals do fragment their wealth in response to taxation (Advani and Tarrant, 2020: 18).

Offshoring of wealth is a tool predominantly used by the wealthiest households to evade and avoid tax. In Scandinavia, the top 0.01% of taxpayers offshore a quarter of their wealth, (Alstadsæter, Johannesen and Zucman, 2019a), while in Spain wealthy households hide 30% of their wealth on average (Mas Montserrat and Mas Montserrat, 2019). In Colombia, individuals offshored 7.7% of their wealth simply to avoid paying a newly introduced wealth tax (Londoño-Velez and Ávila-Mahecha, 2020). Providing the required resources to HMRC to audit and enforce compliance will be crucial to maintain a credible threat and discourage tax subjects from breaking the law. In the case of financial wealth, capital controls can be introduced to tackle capital outflow in response to a progressive wealth tax.

In addition to relocating assets abroad, households can change citizenship or residency to avoid a tax. Advani and Tarrant (2020: 23) find however that "there is little support for the view that the emigration of wealthy taxpayers poses a significant threat to progressive taxation". The evidence points towards quite high internal migration effects from increased taxes, but international effects are weaker. Furthermore, it could also be possible to continue to tax households for a minimum period after departure to disincentivise people to leave. However, evidence shows that migrants are much more likely to move internationally to avoid taxes than people who still live in their country of birth. This is particularly signficiant for the UK which has a higher proportion of high-income foreigners compared to other countries (Advani, Chamberlain and Summers, 2020: 86). An exit tax could be used to discourage tax avoidance by means of emigration.

Lastly, political lobbying can put pressure on policy makers to provide exemptions for certain asset classes, ultimately undermining the tax base and public trust in the tax. Wealthy households in particular are more likely to use their economic resources and political connections to fight and diminish the effectiveness of the tax, particularly if they view themselves as being the only group liable. As Gus O'Donnell, former head of the British civil service noted, "In any tax change there are losers and the losers scream". Such a political fight is behind the story of how the last attempt to implement an annual wealth tax was stopped in its tracks. In 1975, after a newly elected Labour Party voted through legislation to implement a new annual wealth tax, the British aristocracy lobbied hard to make their estates exempt. After building a successful campaign against the tax, the proposals were dropped (Shrubsole, 2019).

Saez and Zucman (2019: 458) assume that the rich will hide a fraction, h, of their wealth. They claim that as a rough rule of thumb hiding a fraction h of wealth reduces revenue by a fraction h as well.[2] In their assessment of the revenue potential of a progressive wealth tax for the USA, they assume two evasion scenarios (15% evasion rate (h=0.15) and 50% evasion rate (h=0.50)). We adopt the same methodology and run the tax simulation for both the strong and weak evasion and in between cases.

4. Data and methodology to address missing observations

The tax simulations are estimated on data from the Wealth and Assets Survey (WAS) provided publicly by the ONS. Wealth is defined as the sum of financial, physical, property, pension and business assets net of liabilities, as outlined in Table A1 in the appendix. We use data from 2018-2020 (the latest wave) as we are primarily interested in the revenue potential of wealth taxes today. The top 1% of the dataset has been adjusted using data from the Sunday Times Rich List and applying the rich list correction approach outlined by Vermeulen (2018).

For the latest round of the WAS survey, i.e. the 2018-2020 results, the rich list approach estimates that £2.25 trillion in wealth is missing from the top 1% of the wealth distribution. Making this adjustment increases the aggregate total of wealth in 2016-

[2] They consider two scenarios: (1) homogenous evasion: where everybody hides a fraction h of their wealth, and (2) concentrated evasion: where h % of people hide all of their wealth and (1-h) report all of their wealth truthfully. In cases, such as our setup here, where the wealth tax thresholds are based on a fixed thresholds (that are set in relation to some distribution but which is set fixed for the foreseeable future in order not to have to reconstruct the wealth distribution each year to administer the tax), concentrated evasion will lead to the tax base to be scaled down by (1-h) exactly as a fraction of 1-h people with more than the threshold of wealth vanishes. On the other hand, homogeneous evasion will lead to the tax base being scaled down by slightly more than (1-h). However, for simplicity, we simply assume that the tax base and therefore revenues reduce by h as well.

2018 to £18 trillion and the top 1% share of total wealth to 25%. This level of wealth inequality is broadly consistent with estimates from the World Inequality Database which has a top 1% wealth share of 20% in the UK.

5. Estimation Results

Table 2 shows the total wealth tax revenue in billions of pounds for each of the four evasion scenarious. Column (1) presents the tax revenues if we assume that there is no tax avoidance. Column (2) presents the tax revenues if we assume that there is a 15% evasion rate (the strong enforcement case). Column (3) presents tax revenues if we assume a 25% evasion rate. Column (4) presents tax revenues if we assume a 50% evasion rate.

The results show the high revenue potential of a progressive wealth tax. Looking at the strong enforcement case, the progressive wealth tax schedule would raise £78 billion in the first year. This is equivalent to 3.5% of GDP and 12% of total tax revenues.[3] This demonstrates the substantial revenue potential of the tax, on the assumption that avoidance is limited to 15% of total revenues. In the medium case of 25% evasion, this wealth tax schedule would raise £69 billion (3.1% of GDP and 11% of tax revenues). Under the weak enforcement case, the tax would still generate £46 billion a year (2% of GDP and 8% of total tax revenues).[4]

Table 2. Wealth Tax Revenues

	No tax evasion	Strong enforcement: 15% evasion rate	Medium enforcement: 25% evasion rate	Weak enforcement: 50% evasion rate
Tax Schedule	(1)	(2)	(3)	(4)
Amount (£bn)	92	78	69	46
% GDP	4	3.5	3.1	2
% Total Tax Revenues	14	12	11	8

6. Conclusion

This paper has discussed the potential of a progressive wealth tax in the UK. Our baseline model has the following marginal rates and thresholds. Individuals with wealth above £2.2 million (the top 1%) are taxed at a marginal rate of 1%; above £3.6 million (the top 0.5%) at 2% and above £11.12 million (the top 0.1%) at 4%. We find that a progressive wealth tax with these design features has the potential to raise substantial revenues, roughly £46-78 billion a year after administration costs and tax avoidance and evasion: £46 billion if 50% of the tax is avoided, £69 billion if 25% is avoided, and £78 billion if 15% of the tax is avoided. This is equivalent to roughly 3.5-12% of total tax revenues taken by the UK government each year. As these estimates are made with 2018-2020 data, and wealth inequality at the top has substantially increased since 2018-2020, these figures should be taken as lower bound estimates.

[3] GDP was £2,233.921 billion in 2018 (current £s) and total tax revenues tax by UK government was £621 billion (current £s) in 2018.

[4] Table A2 in the appendix presents an alternative set of results for a flat tax of 1% on the top 1% wealthiest individuals. This tax would raise £17bn (50% evaded), £251bn (25% evaded) or £28bn (15% evaded). Table A3 presents the same results for a flat 1% wealth tax on the top 0.1%.

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TABLE A1 Wealth and Assets Survey Data: Wealth and Characteristic Variables

Variable Name	Description	Waves
Wealth and its Components		
Individual/household net wealth	Net wealth = net property wealth + net financial wealth + physical wealth + pension wealth	7
Individual/household net property wealth	Net property wealth = property assets – property debts Property Assets = value of main residence + value of other property Value of other property = value of houses other than main residence + value of buy to let houses + value of buildings + value of UK land + value of overseas land + value of other property Property Debts = total mortgage on main residence + total value of equity release + total other property debt	7
Individual/household net financial wealth	Net financial wealth = gross financial wealth + individual endowments – financial liabilities Gross financial wealth = Total value of current accounts in credit + value of savings accounts + value of ISAs + value of National Savings Product + value of UK Shares + value of insurance products + value of fixed term investment bonds + value of employee shares and employee options + value of Unit and investment trusts + value of overseas shares + value of UK bonds/gilts + value of overseas bonds/gilts + value of other investments (formal financial assets) + value of informal financial assets + value of Child trust funds/junior ISA + value of other children's assets Financial liabilities = total outstanding store card balance + total outstanding store card balance + total outstanding on mail order + total outstanding on Hire Purchase accounts + total amount of formal, informal and SLC loans + total value of overdrawn current accounts + total outstanding on mail order arrears + total of all hire purchase arrears + total of all loan arrears + total Bills Arrears All ages are included, apart for individual level endowment, where only adults (over 18 years old are included)	7
Individual/household physical wealth	Physical wealth = value of main house physical wealth shared amongst adults + value of contents in second homes + value of contents in buy to let property + value of contents in Overseas property Only includes individuals who are over the age of 16	7
Individual/household pension wealth	Pension wealth = value of occupational defined benefit pensions + value of defined contribution pensions + value of retained rights in defined benefit pensions + value of retained rights in defined contribution pensions + value of additional voluntary contributions (AVCs) + value of retained rights in drawdown + value of pensions in payment + value of personal pensions + value of pension from former spouse of partner	7

Individual/household net private business wealth	Net private business wealth is collected at the individual level in the WAS, according to the following question:[5] 'If you sold your business/your share in this business today, including any debts or liabilities, about how much would you get? Please include the value of financial assets, accounts receivable, inventories, land, property, machinery, equipment, customer lists and intangible assets.' This question measures the market value of net, rather than gross, business wealth, as it includes any debts or liabilities of the business. If respondents do not know the exact market value of private business wealth, they can choose between 10 bands. These questions are asked of anyone who fall into one of the following categories: 1. A sole director of their own company, 2. Director of a company they part own 3. Partner in a business or professional practice 4. Self-employed in another way	7

Table A2. Revenues Flat Rate 1% on Top 1% Wealthiest Individuals

	No tax evasion	Strong enforcement: 15% evasion rate	Medium enforcement: 25% evasion rate	Weak enforcement: 50% evasion rate
Tax Schedule	(1)	(2)	(3)	(4)
Amount (£bn)	33	28	25	17
% GDP	1.47	1.25	1.1	0.74
% Total Tax Revenues	5.30	4.51	3.97	2.65

Notes: Flat rate tax with a rate of 1% on wealth above the 99th percentile.

[5] This definition of private business wealth is also used by the Wealth Tax Commission (WTC EP13, 2020: 49).

Table A3. Revenues Flat Rate 1% on Top 0.1% Wealthiest Individuals

	No tax evasion	Strong enforcement: 15% evasion rate	Medium enforcement: 25% evasion rate	Weak enforcement: 50% evasion rate
Tax Schedule	(1)	(2)	(3)	(4)
Amount (£bn)	16	14	12	8
% GDP	0.73	0.62	0.55	0.37
% Total Tax Revenues	2.64	2.24	1.98	1.32

Notes: Flat rate tax with a rate of 1% on wealth above the 99.9th percentile.