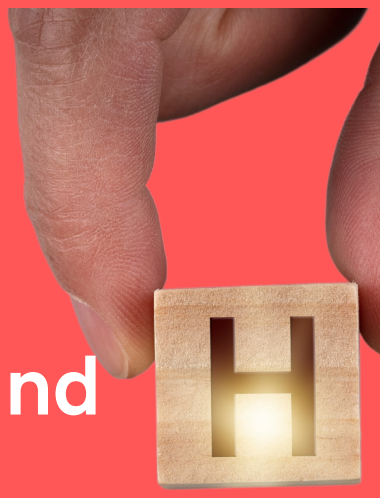
The Nature of Wealth in Britain



How Wealth Wields Power and the Case for a Wealth Tax

2021

Summary

OFFICE OF
JON
TRICKETT

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The Nature of Wealth in Britain

1 Introduction

INTRODUCTION

We live in one of the richest nations on earth, yet we have become one of the most unequal. It is now a matter of urgency that we begin to redress the inequality of wealth distribution in Britain head on. No longer can we tinker around the edges or disguise rhetoric as action. Transformative change in the taxation of wealth is urgently required, especially after the devastating impact of covid on people's lives.

The hardship resulting from the pandemic has barely touched the very wealthy economically. Indeed, they have seen their wealth skyrocket over the last year.

There are now more billionaires in the UK than at any other time in the 33 year history of the Times Rich List.

Indeed, the richest 250 people have seen an increase of £106 billion in their wealth since before the pandemic.

Juxtapose this with the fact that over 11 million people have had their jobs furloughed, 14 million are living in poverty (9 million of whom are actually in work) and there has been a 33% increase in the use of food banks in the last 12 months.

To add to this, the Tory government is cutting Universal Credit, breaking an election promise by hiking up National Insurance and overseeing a huge jump in inflation.

This is of course a deeply unfair state of affairs, and the public agrees. The British Attitudes Survey found that 59% of the public think that wealth differences in Britain are unfairly large.

We need to tackle the inequality of wealth distribution in Britain head on. At the start of the Industrial Revolution we were one of the most productive economies in the world. Now - in so many economic sectors - we are falling behind. And, the regions which contributed most, are now held back.

A major investment drive, designed to achieve the same levels of productivity throughout every region as exists in London, would grow the economy by £220bn per year.

There is a huge amount of untapped wealth in this country which at present is either lying unproductive in the bank accounts of the richest or hidden away in offshore schemes.

The total market value of the London Stock Exchange stands at £3.8 trillion. The combined wealth of the 1000 richest people living in our country in 2020 was £538 billion.

In Britain we don't tax wealth. We tax earned income. Even with corporation tax we have reduced the tax load so that now it is only raising a quarter of the amount we raise from income tax. The accumulation of wealth is largely ignored. It's time for this to change. In our late capitalist economy, the idea of touching capital itself is almost a sacrilegious thought.

It's time we thought the unthinkable.

That is why I have published this report that proposes a radical overhaul of our tax system.

In total, approximately £490.9 billion could be raised in 5 years from the proposals within this report. That is £98.18 billion a year which could be used to build a dynamic green economy focussed on growth and investment rather than simply to tax and spend.

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Endorsements

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Endorsements

“This is an incredibly important and timely report produced by my friend and colleague Jon Trickett MP. Throughout the pandemic the rich have amassed vast fortunes while the poorest in our communities continue to struggle resulting in an ever widening and unsustainable wealth gap. This report outlines real alternative solutions to another round of austerity that will raise billions via a wealth tax to be spent on recovering from the pandemic in a way that works for everyone rather than just an extremely privileged few."

Ian Lavery

"The government keeps cutting spending on public services and attacking the incomes of the poorest, yet the wealthiest are allowed to keep piling up money. It's time we tackled the gross accumulation of wealth and growing inequality, both in terms of class and region - redistributing wealth from the very richest to working people. I welcome Jon's report and the national discussion it launches."

Jeremy Corbyn

"This report highlights the acute growth of inequality juxtaposed against the rapid accumulation of wealth. It is clear that the unfairness that sees income from wealth taxed at lower rates than income from work must end if we are to have any chance of providing the public services everyone deserves, as well as tackling crisis such as Climate Change and Social Care. This report will be a key tool in sparking the national debate about how we reform our tax system fairly so that it works in everyone’s interests."

Rebecca Long -Bailey

Endorsements

"We live in a society of grotesque levels of inequality with appalling extremes of wealth, poverty and insecurity. This report not only exposes these extremes but more importantly shows how they can be tackled."

John McDonnell

"This is a very timely report from my colleague Jon Trickett. The government has launched a huge offensive on ordinary people cutting their living standards, pay and conditions at work and raising their taxes. But at the same time there is a huge pandemic bonanza for Tory donors and Tory cronies, with billionaires multiplying in number and getting richer by the day. Scandalously, Universal Credit is being cut while the government wants to cut taxes on the banks we bailed out. This report is an important corrective to the nonsense that 'there is no money' left when it comes to funding public services including pay, of funding investment and tackling climate change."

Diane Abbott

"The case for a wealth tax is greater than ever. While millions of people have struggled to make ends meet throughout this crisis, British billionaires have got £290m richer every day. Our whole Labour movement needs to make the call for a Wealth Tax one of our key demands in building a fairer society. This document can play an important role in helping activists win the argument for it."

Richard Burgon

3 Executive Summary

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Executive Summary

- As we approach the Autumn Statement, it looks likely that there will be more cuts to public services. In preparation for the Statement, the Chancellor has asked departments to find "at least 5 percent of savings and efficiencies from their day-to-day budgets".

- We have already seen the government raise national insurance - which they promised not to do in their election manifesto. However, this measure, along with real wage cuts, rising inflation and the crisis over energy prices is only going to hit those on lower and middle income earners. Pushing the burden of tax, and the cost of living, onto those on low and middle incomes is not only unjust it is also unnecessary.

- This report shows that there is untapped wealth in this country which at present is lying unproductive. There has been a steady increase in inequality between the very wealthy and everyone else. The richest people have seen their wealth increase, by £538 billion between the financial crash and just before the start of covid. Even under covid, the richest 250 increased their wealth by another £106.7 billion.

- The government has been focusing too much on taxing income - i.e the incomes of working and middle class people - yet they have largely ignored the accumulation of wealth. Remember, wealth is taxed at a much lower rate than income.

- The report proposes four options for a wealth tax to be consulted on. We do not believe in top-down policy making so we have given options for a one off tax, annual tax and a hybrid tax targeting increases in wealth. It also proposes bringing dividends and capital gains in line with income tax. As well as closing the loopholes used to avoid or evade tax and tackling big companies hoarding cash in reserves.

- The median revenue which could be raised by the four wealth tax options is £218.4 billion over 5 years. £37 billion over 5 years for bringing dividends into line with income tax and £90 billion over 5 years for levelling up Capital Gains Tax. This would total £345.4 billion in 5 years. This estimate is deliberately conservative to account for behavioural changes, admin costs, and other factors.

Closing tax avoidance loopholes will raise £7.6 billion a year and tackling tax evasion would raise £21.5 billion a year. A total of £29.1 billion a year, £145.5 billion in 5 years

In total, approximately £490.9 billion could be raised in 5 years, that is £98.18 billion a year which could be used to build a dynamic green economy focussed on growth and investment rather than simply tax and spend.

The money could also be used to fund policies which would increase the spending power of working people, which is key to rebuilding the economy:

- 15% NHS pay increase (£5.1bn nominal cost)
- Making the £20 UC uplift permanent (£6bn)
- Plug the Social Care funding gap (£4.3bn)
- Local Council funding gap (£7.4bn)
- Reverse education funding cuts (£7 billion)
- Insulating all homes, reducing energy bills and cutting carbon emissions by 10% through "Warm Homes for All" (£250 billion)
- Building 150,000 houses a year (£75 billion)

This money could also fund big parts of our public services, including:

- The entire yearly education budget of £96.1 billion (including schools, colleges, etc);
- The entire Departmental Expenditure Limits of: Local Government, including housing; Transport, the Home Office and the DWP

In order to implement such radical policies, we have to tackle the power wealth wields over our political systems.

Unfortunately, wealth buys influence. In order to make taxing wealth workable, vested interests need to be taken out of our political structures and institutions.

Lastly, we do not want to tax people's homes, pensions, savings or earnings.

Indeed, the aim of this report is to show that it is the wealthy who should be contributing more, not workers. The latter are already taxed at a much higher rate, and we expect to only tax the wealth of a small number of people in the top 1%.

4 Reccomendations

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Recommendations: A Wealth Tax?

There are several ways a wealth tax could work in the UK. Some have favoured a flat rate one off wealth tax and others have prioritised an annual tax. Indeed, the Wealth Commission's wealth tax simulator gives even more ways a wealth tax could be raised.

We believe there are four possible options which will be discussed in detail within this section. It is not for us to decide which course to take, but rather have an open discussion on the four options below.

OPTION 1

One off Wealth Tax, as proposed by the Wealth Commission

The Commission recommended: "A well-designed one-off wealth tax would raise a total of £260 billion at a rate of 5% over £500,000 per individual or £80 billion at a rate of 5% over £2 million per individual, payable at 1% per year over five years. These estimates account for all relevant behavioural responses and administrative costs to government."

Total raised: £260 billion

OPTION 2

One off Wealth Tax, graduated on wealth above £2 million

Taking into account behavioural changes and a medium to high avoidance rate, this one-off tax would raise £197.6 billion, including nearly £700m in administration costs. Wealth over £2 million would be taxed at the following rates:

£2-5 million - 8%
£5-10 million - 12%
£10+ million - 15%

Total raised: £197.6billion

OPTION 3

An Annualised Wealth Tax on Wealth above £2 million

This would be an Annual tax excluding primary place of residence and also assumes high rates of avoidance measures taken by taxpayers. It would take wealth above £2 million in a graduated way. This would raise £22.5bn a year, including yearly administration costs £104.0m

£2-5 million - 1%
£5-10 million - 1.5%
£10+ million - 2%

Total raised: £112 billion over 5 years

OPTION 4

Hybrid Wealth Tax

This would include a one-off tax on wealth, as shown in 2. above, with an annual tax on wealth gained after.

Over Covid, the richest 250 people, as listed in the Sunday Times, increased their wealth by £106.7 billion. If we taxed wealth increases at the same base rate of income tax (20%) it would raise £21.3 billion each year.

Looking at the aggregate of increased wealth - wealth accrued between the financial crisis and covid - of the richest 1000 people it is clear that a significant amount of money could be raised. The richest 1000 increased their wealth by £538 billion between 2009-2020 which if taxed at 20% would have raised £107 billion. This could have been used instead of austerity measures implemented by the Tory government.

Total raised: £197.6 billion plus £21.3 billion a year (£106.5 billion in 5 years) = £304.1 billion

Recommendations

Bring dividend taxes into line with income tax bands

Dividends, which are currently taxed at a lower rate than income, need to be brought into line with income tax rates. It is estimated that bringing dividends into line with income tax would raise £37 billion over 5 years.

With reference to the personal allowance, IPPR estimates that removing it would raise £0.75 billion in 2021/22, rising to £0.82 billion in 2024/25.

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Bring Capital Gains Tax into line with income tax bands

It is estimated that bringing Capital Gains Tax into line with income tax would raise £90 billion over five years, when accounting for behavioural impacts.

Close tax loopholes

Closing tax loopholes (for more details on how this would work, look at the main report) could help to raise $10.3 billion (£7.6 billion) through stopping tax avoidance; and $29.3 billion (£21.5 billion) due to tackling tax evasion a year.

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Unlocking Cash Reserves

In order to make big companies with large - or excessive - cash reserves use their money more productively we suggest a “use it or lose it” policy for the biggest companies with excessive cash reserves.

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