

Institute for  
Fiscal Studies

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## Taxing the wealthy

Stuart Adam, Institute for Fiscal Studies

*Addington Society meeting: ‘UK tax – should the wealthy pay more?’*

*London, 30 November 2015*



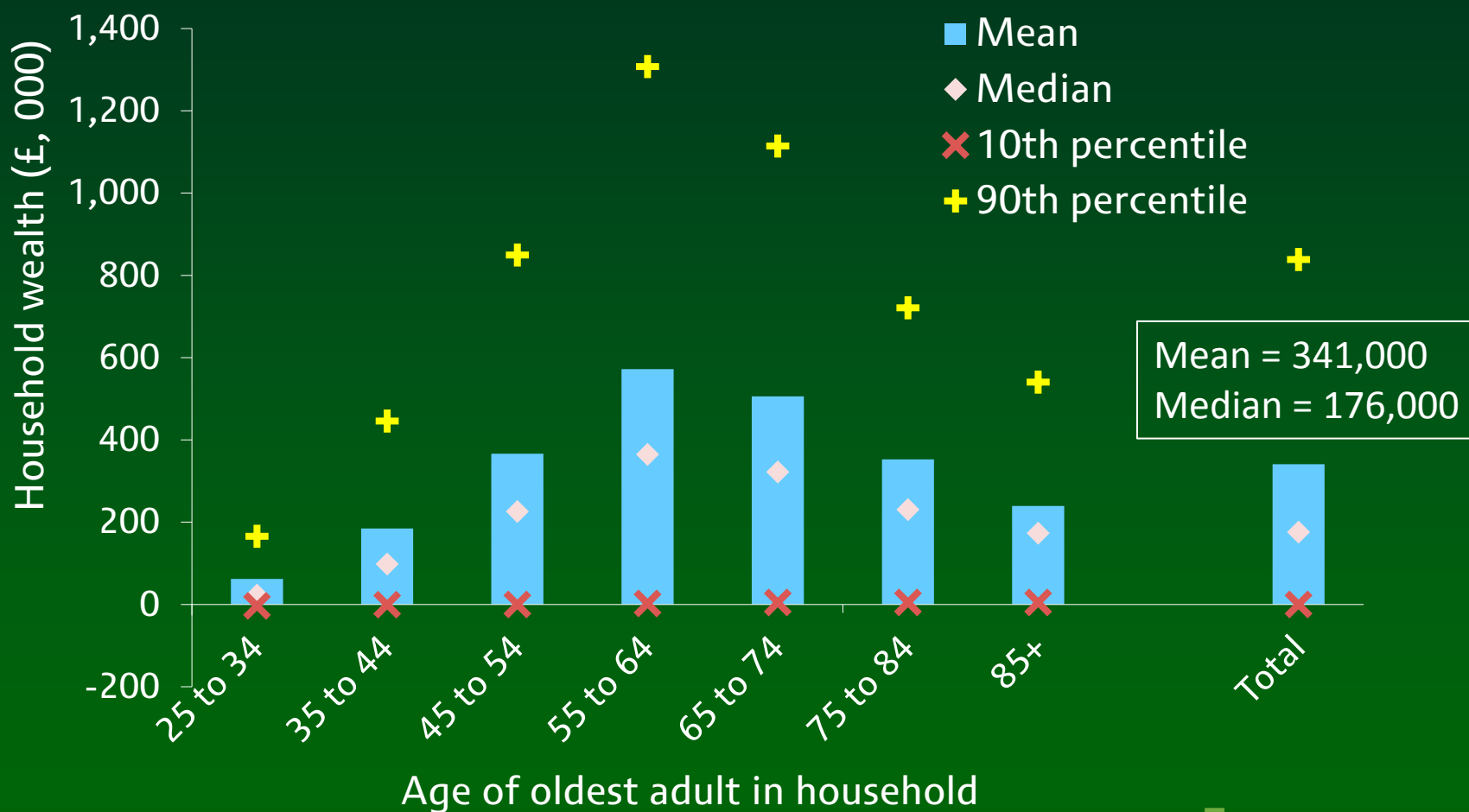
# Some distinctions

1. Wealth vs income
2. Top 10% vs top 1%, 0.1%, 0.01%,...

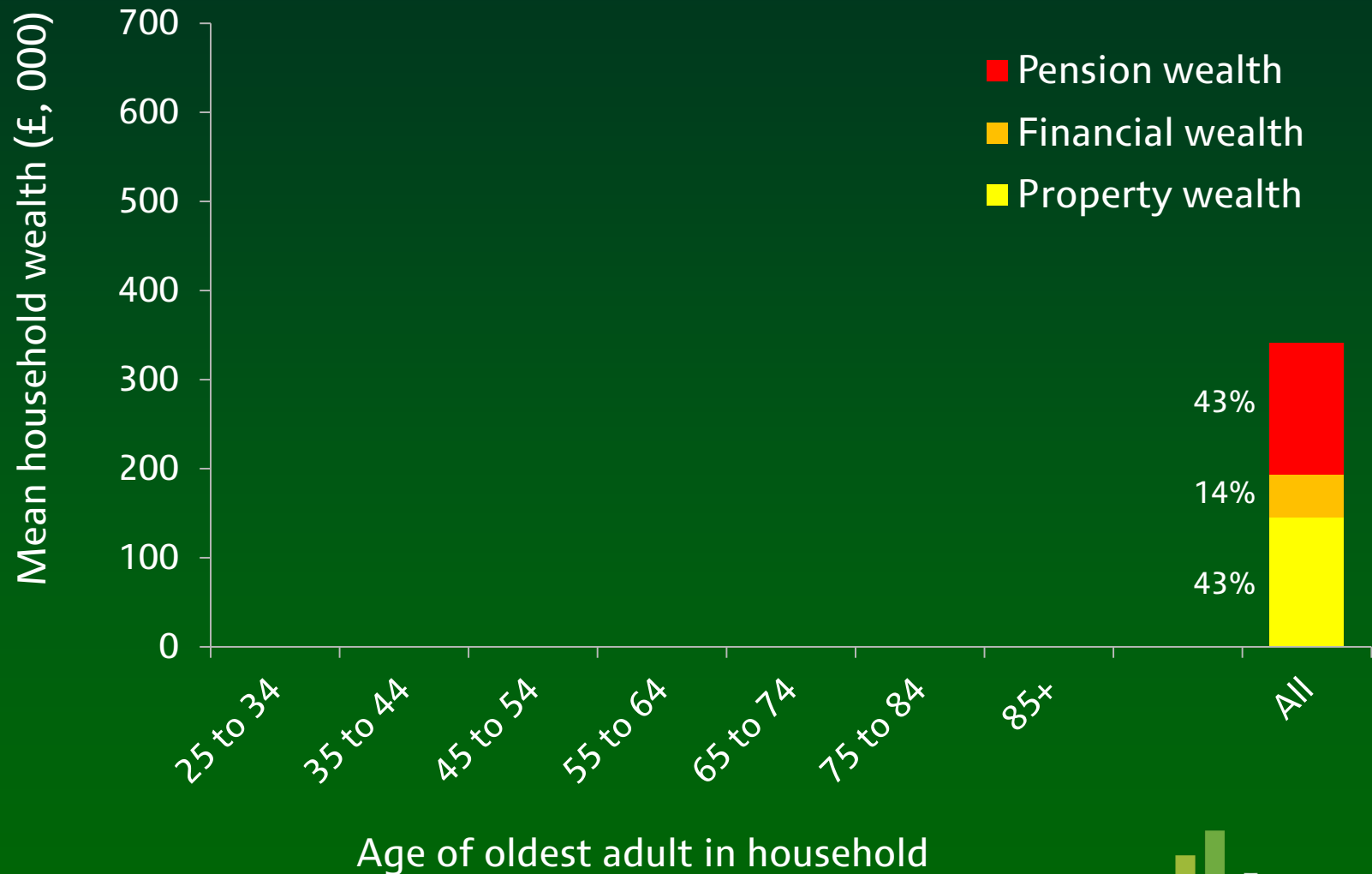
According to the Wealth and Assets Survey 2010-12:

- 10% of households (2.4m) have more than £839,000
  - Collectively own 46% of GB household wealth
- 1% of households (240,000) have more than £2.4m
  - Collectively own 12% of GB household wealth
  - True figure probably higher
  - Little data on the ‘super-rich’

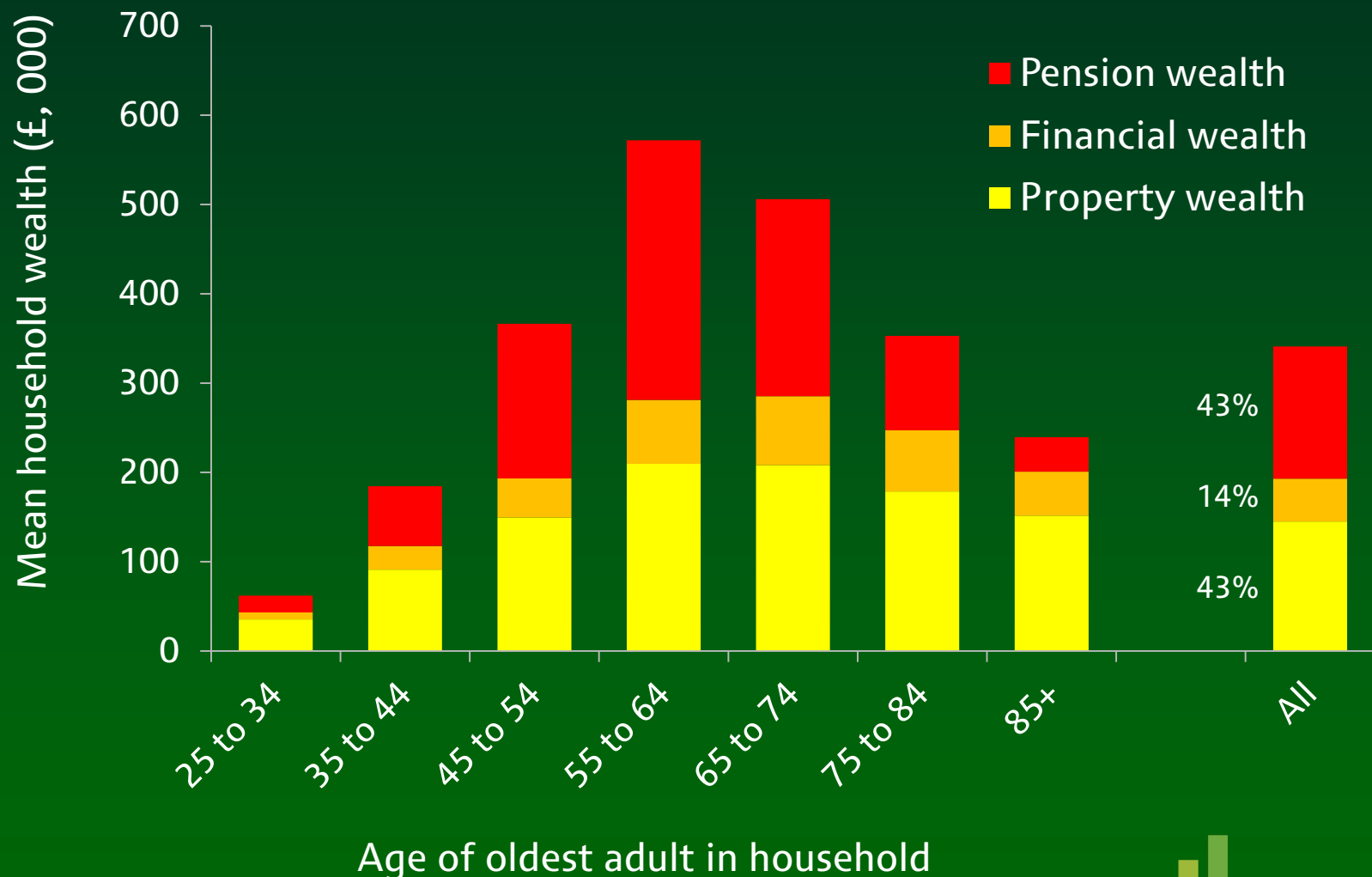
# The distribution of wealth by age, 2010-12



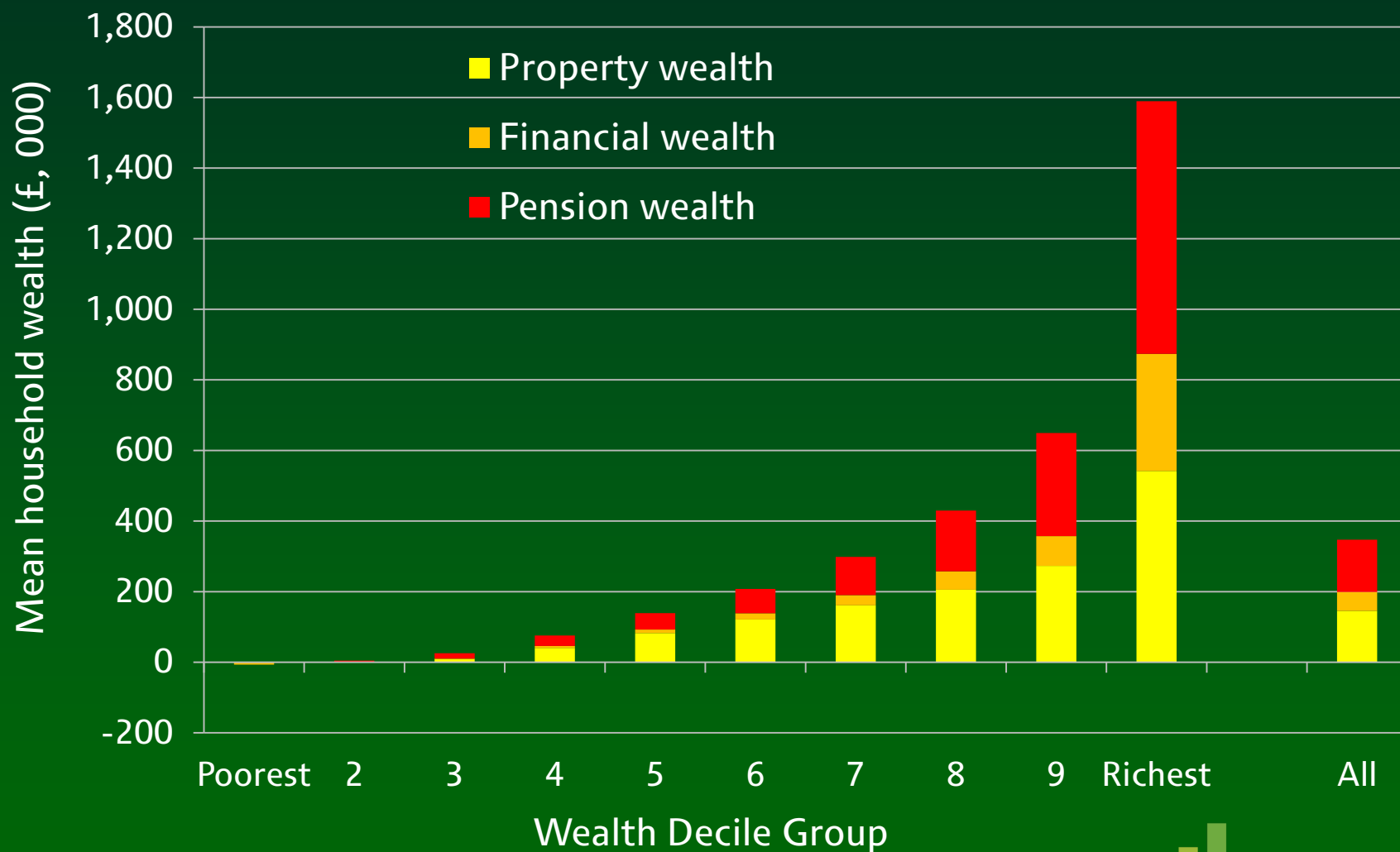
# The composition of wealth in 2010-12



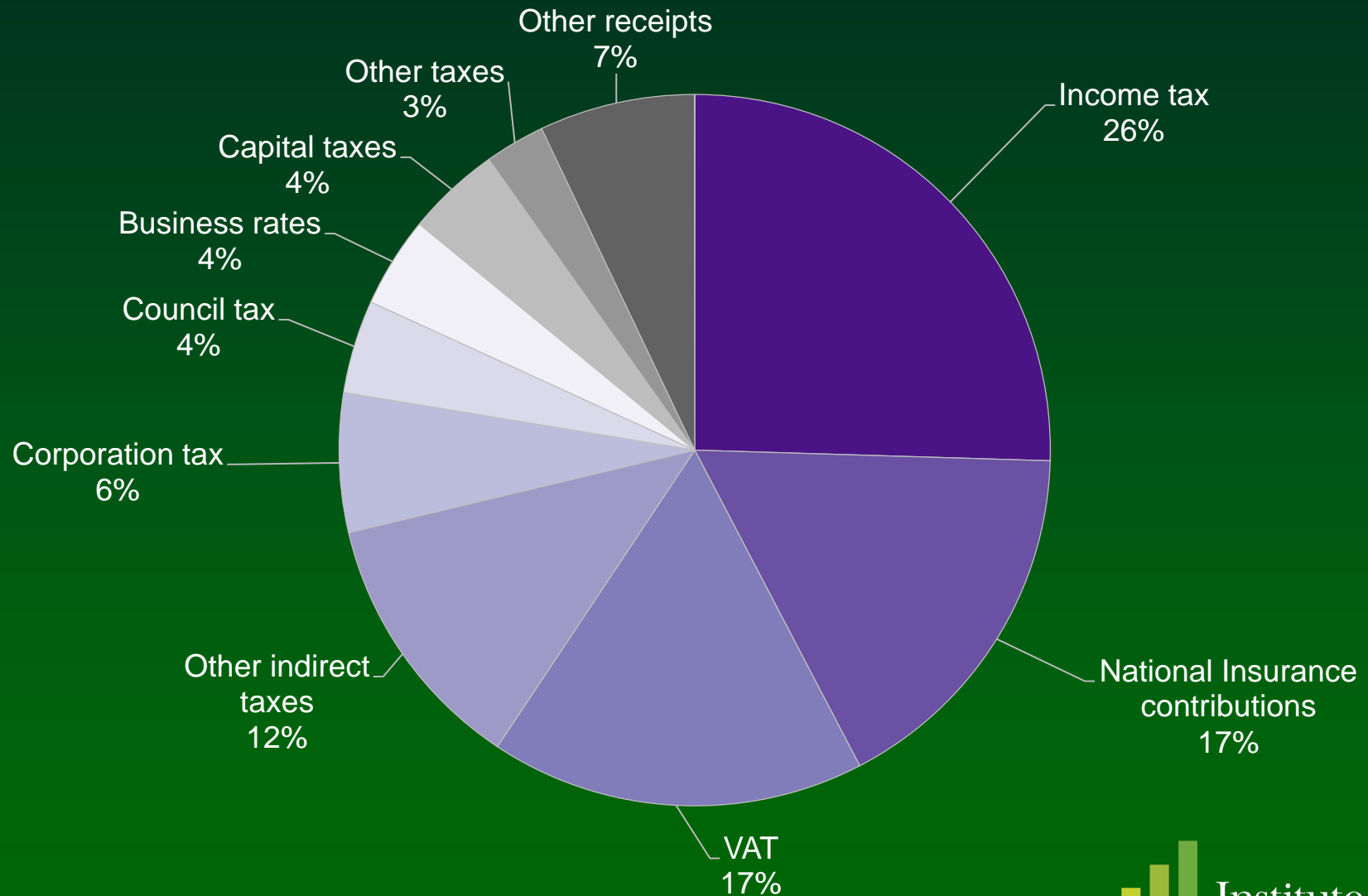
# The composition of wealth in 2010-12



# The composition of wealth in 2010-12



# Composition of government revenue, 2015-16



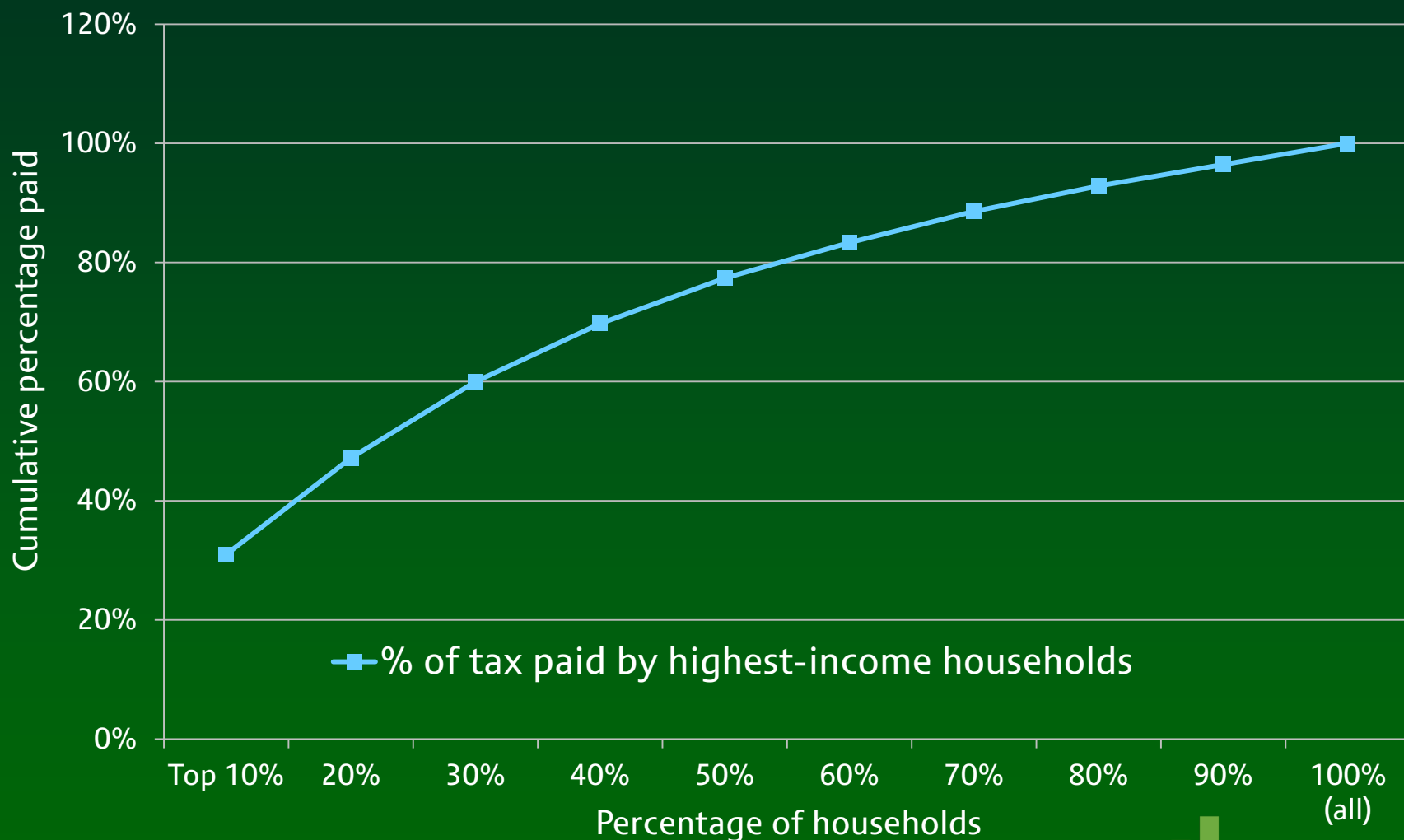
# Payment of some taxes is highly concentrated

According to HMRC's latest figures:

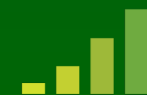
- 29% of income tax is paid by the 332,000 additional-rate taxpayers (0.6% of adults)
    - 68% is paid by the 5m higher- and additional-rate payers (9% of adults)
  - 54% of CGT is paid by 5,000 individuals (<0.01%) realising gains >£1m
  - 70% of inheritance tax is paid by 2,000 estates (0.4%) worth >£1m
- ➔ Reflects both progressive tax schedules and inequality in tax bases



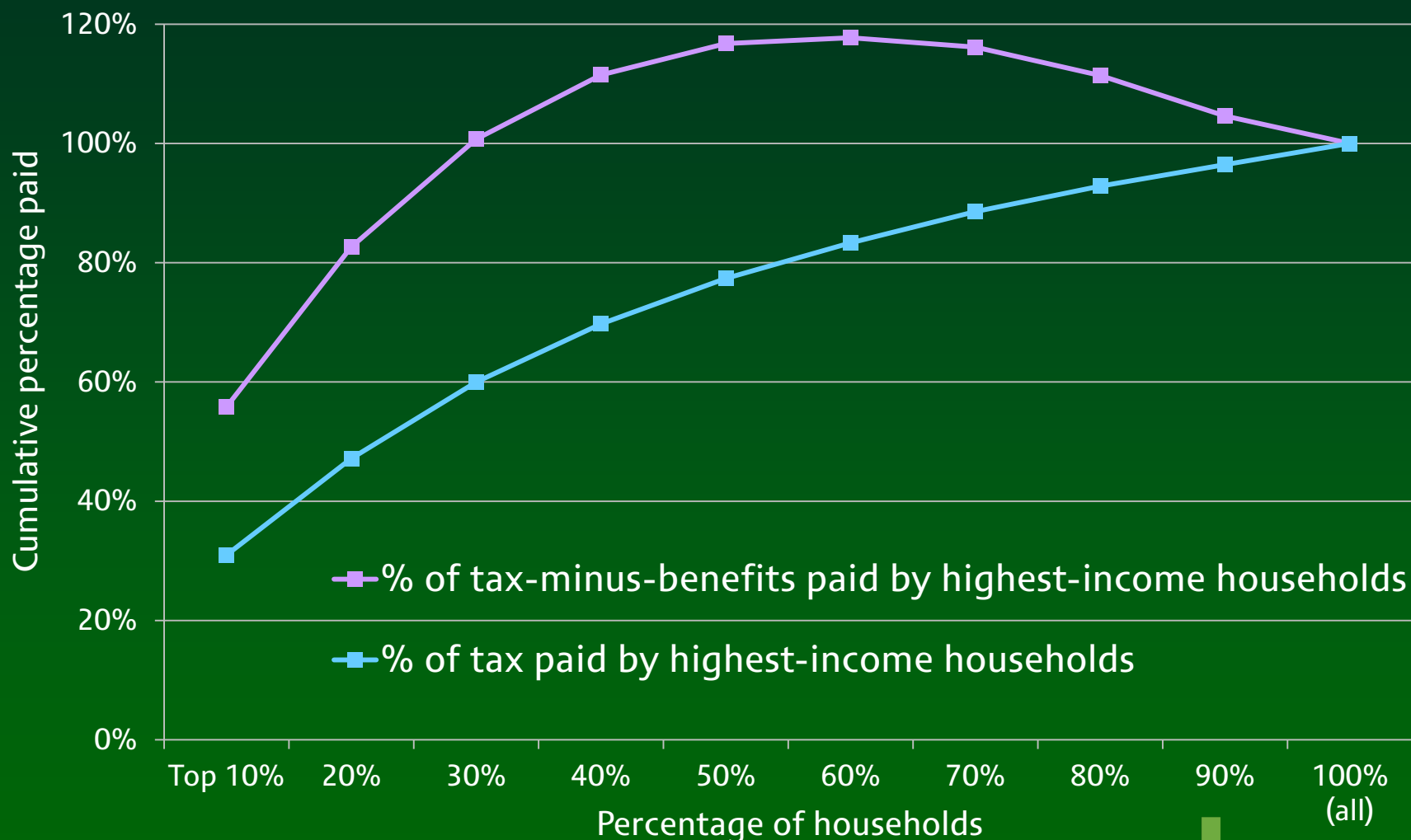
# Cumulative shares of tax liability, 2013-14



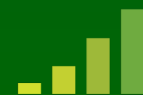
Note: excludes corporation tax, business rates, stamp duties, CGT and IHT.  
Source: Figure 9.4 of *The IFS Green Budget: February 2013*



# Cumulative shares of tax liability, 2013-14



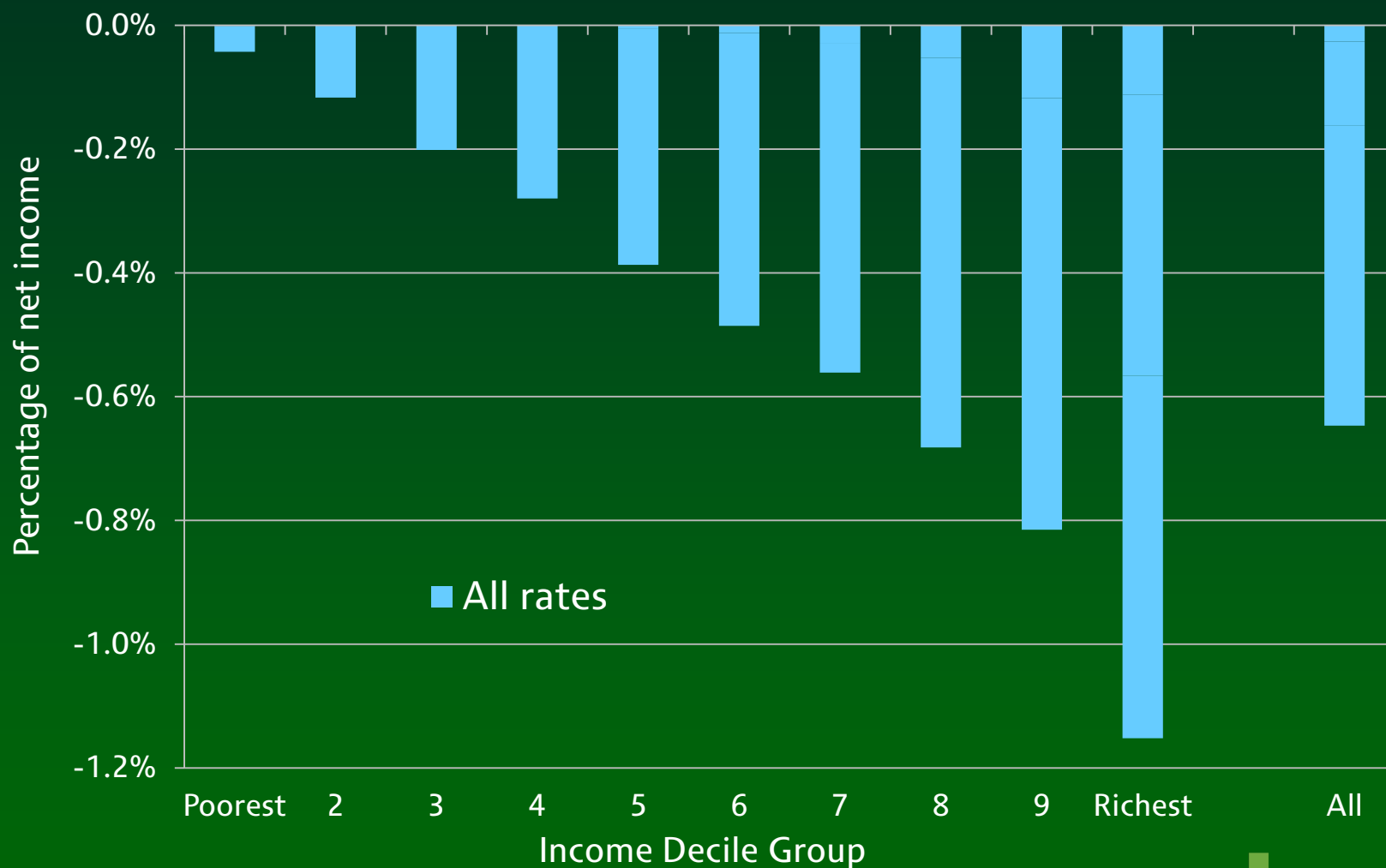
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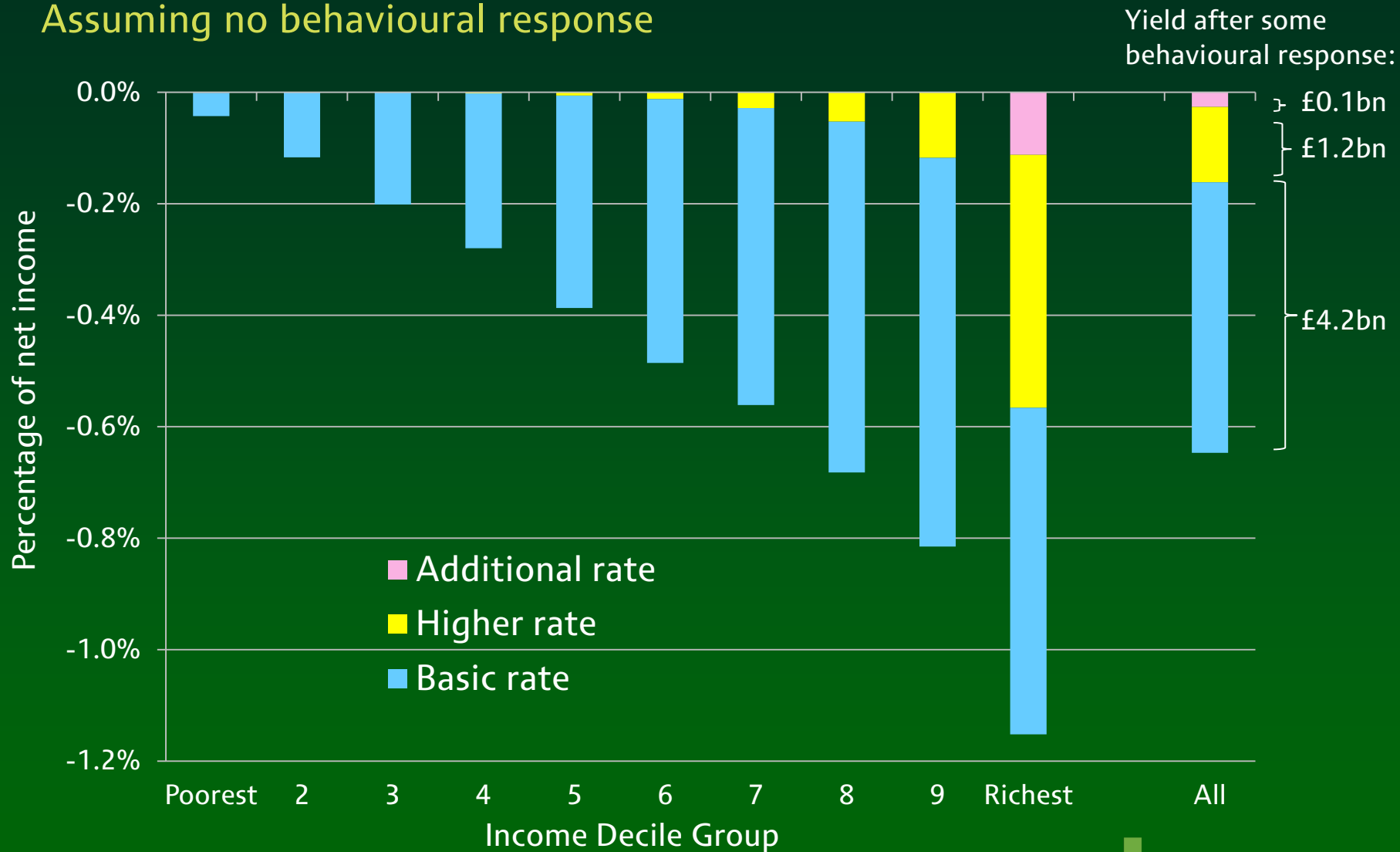
# Distributional impact of 1p income tax rise

Assuming no behavioural response

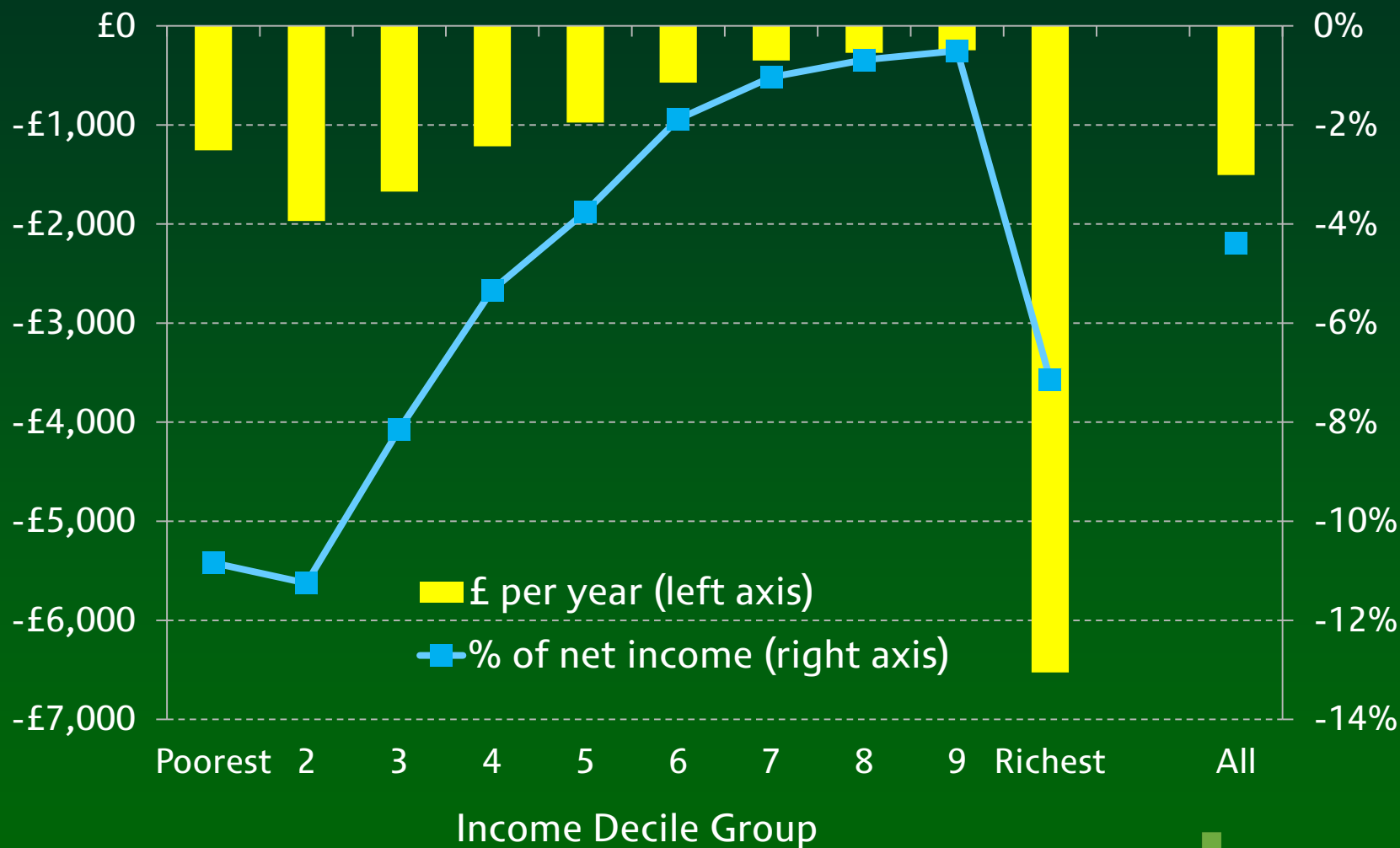


# Distributional impact of 1p income tax rise

Assuming no behavioural response



# Impact of tax and benefit reforms between January 2010 and April 2019

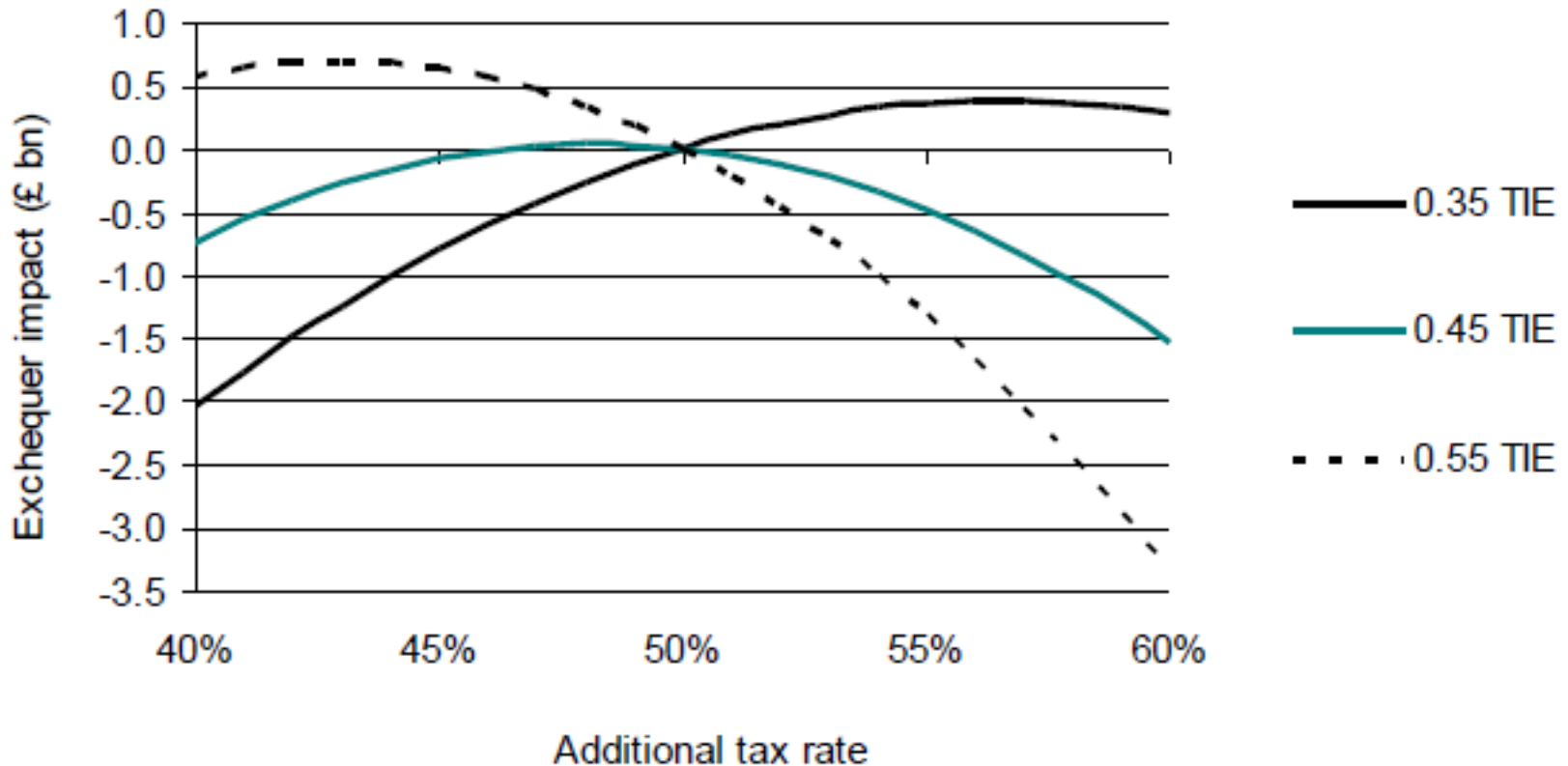


# Taxing the well-off

- Increasing concerns about wealth inequality
- Obvious attractions to tilting the tax burden (more) towards the better-off
  - Though also principled arguments against
- Revenue already heavily reliant on a small number of taxpayers
  - Must be conscious of how their behaviour responds to tax changes

# Top tax rate and revenue: the government's view

Chart A1: The additional rate Laffer curves



Source: HMRC (2012), *The Exchequer effect of the 50 per cent additional rate of income tax*

# Taxing the well-off

- Increasing concerns about wealth inequality
- Obvious attractions to tilting the tax burden (more) towards the better-off
  - Though also principled arguments against
- Revenue already heavily reliant on a small number of taxpayers
  - Must be conscious of how their behaviour responds to tax changes
- It matters not only how much you tax the rich, but how you tax them



# Some relatively sensible ways to tax the well-off...

## More

- Remove IHT reliefs for agricultural and business assets
- Remove CGT entrepreneur's relief and forgiveness at death
- Charge NICs on employer pension contributions and cut tax-free lump sum
- Increase (updated!) council tax at top end
- Merge income tax and CGT allowances
- Tax lifetime gifts as well as bequests

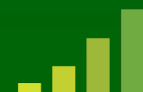
## But avoid:

- Increasing SDLT
- Restricting pension tax relief
- Annual wealth tax

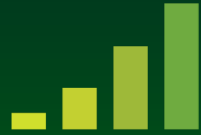
## Less

- Cut top rates of income tax (inc. withdrawal of personal allowance)
- Reduce higher rates of SDLT (or abolish completely)
- Reduce or abolish IHT
- Give full IT & CGT allowance for amounts saved/invested
- Cancel abolition of higher-rate relief for landlords' mortgage interest

Note: important caveats not included!



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