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

Mean = 341,000
Median = 176,000

Household wealth (£, 000)

Age of oldest adult in household

Source: Crawford, Innes and O’Dea (2015)
The composition of wealth in 2010-12

Mean household wealth (£, 000)

Age of oldest adult in household

- Pension wealth: 43%
- Financial wealth: 14%
- Property wealth: 43%

Source: Crawford, Innes and O’Dea (2015)
The composition of wealth in 2010-12

Mean household wealth (£, 000)

Age of oldest adult in household

- 25 to 34
- 35 to 44
- 45 to 54
- 55 to 64
- 65 to 74
- 75 to 84
- 85+
- All

Pension wealth
Financial wealth
Property wealth

Source: Crawford, Innes and O’Dea (2015)
The composition of wealth in 2010-12

Mean household wealth (£, 000)

Wealth Decile Group

- Poorest
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- Richest
- All

Property wealth
Financial wealth
Pension wealth

Source: ONS, Wealth in Great Britain: Wave 3
Composition of government revenue, 2015-16

- Income tax: 26%
- National Insurance contributions: 17%
- VAT: 17%
- Other indirect taxes: 12%
- Corporation tax: 6%
- Council tax: 4%
- Business rates: 4%
- Capital taxes: 4%
- Other taxes: 3%
- Other receipts: 7%

Source: OBR (2014), via Figure 10.2 of The IFS Green Budget: February 2015
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 percentage paid

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Note: excludes corporation tax, business rates, stamp duties, CGT and IHT.
Source: Figure 9.4 of The IFS Green Budget: February 2013
Distributional impact of 1p income tax rise
Assuming no behavioural response

Source: Figure 10.5 of *The IFS Green Budget: February 2015*
Distributional impact of 1p income tax rise
Assuming no behavioural response

Yield after some behavioural response:

- £0.1bn
- £1.2bn
- £4.2bn

Source: Figure 10.5 of *The IFS Green Budget: February 2015*
Impact of tax and benefit reforms between January 2010 and April 2019

Note: Does not include Autumn Statement 2015 announcements
Source: IFS post-Budget briefing, July 2015

Income Decile Group

£ per year (left axis)
% of net income (right axis)

Poorest 2 3 4 5 6 7 8 9 Richest All

£7,000 £6,000 £5,000 £4,000 £3,000 £2,000 £1,000 £0

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Note: Does not include Autumn Statement 2015 announcements
Source: IFS post-Budget briefing, July 2015
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

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  – Though also principled arguments against

• Revenue already heavily reliant on a small number of taxpayers
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• 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

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

But avoid:
- Increasing SDLT
- Restricting pension tax relief
- Annual wealth tax

Note: important caveats not included!
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