Final Report

Wealth Tax Commission

A wealth tax for the UK

Authors
Arun Advani
Emma Chamberlain
Andy Summers

Economic and Social Research Council

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Atlantic Fellows FOR SOCIAL AND ECONOMIC EQUITY

WARWICK THE UNIVERSITY OF WARWICK

CAGE

A WEALTH TAX FOR THE UK

Arun Advani Emma Chamberlain, OBE Andy Summers

Wealth Tax Commission Final Report

Published by the Wealth Tax Commission

https://www.ukwealth.tax

Affiliations:

Advani: Assistant Professor, University of Warwick Economics; Impact Director, CAGE Warwick; Research Fellow, Institute for Fiscal Studies (IFS); Research Fellow, LSE International Inequalities Institute (III)

Chamberlain: Barrister, Pump Court Tax Chambers; Visiting Professor, University of Oxford Law; Visiting Professor in Practice, LSE International Inequalities Institute (III)

Summers: Associate Professor, LSE Law and International Inequalities Institute (III); Research Associate, CAGE

Acknowledgements

The authors thank all of the many contributors to the evidence papers commissioned, and all those who provided helpful comments on earlier versions of this draft, too numerous to name individually. We are also grateful to staff at HMRC, HMT, ONS and the VOA for providing information that served as input to the analysis. Finally, we thank David Burgherr, Helen Hughson, Aruna Popescu, and Hannah Tarrant, for outstanding research assistance. This does not signify any endorsement or agreement by any of the above of the conclusions in this paper.

The Wealth Tax Commission acknowledges funding from the Economic and Social Research Council (ESRC) through the CAGE at Warwick (ES/L011719/1) and a COVID-19 Rapid Response Grant (ES/V012657/1), and by a grant from Atlantic Fellows for Social and Economic Equity's COVID-19 Rapid Response Fund.

Table of Contents

Foreword

‘No, I do not believe that now is the time, or ever would be the time, for a wealth tax.’

So said the Chancellor, Rishi Sunak, in July 2020. But as John Maynard Keynes put it: ‘when the facts change, I change my mind’. Since July, two facts have changed.

First, the predicted deficit as a result of COVID-19 has doubled since then, and is now expected to reach 19% of GDP, the highest peacetime figure ever. It is twice the peak of the financial crash. Second, before now, no one in the UK had seriously considered a wealth tax for nearly 50 years, and the evidence base was thin. Preconceptions had hardened based on experiences abroad, but the reality is that no one really knew if or how a wealth tax could work in the UK.

This report will not change everyone’s mind, but I welcome it as an important contribution to the debate. It has been led by a team with the essential mix of skills in economics, tax law and administration, who approached the subject with an open mind. They conclude that an annual wealth tax is a non-starter in the UK and we should fix our existing taxes on wealth instead. However, a one-off wealth tax is a very different proposition. They think it would work and could raise one-quarter of a trillion pounds over five years. This is a striking conclusion and it comes at a crucial juncture.

The recent spending review highlighted the extent to which our public finances and our tax system have been challenged by the COVID crisis. It is broadly accepted that if the prime minister is to stand by his promise not to return to austerity then taxes will eventually have to rise. This will mean breaking another manifesto commitment by raising income taxes, national insurance contributions (NICs), or value added tax (VAT). Or it means thinking seriously about new taxes.

Governments have made radical changes to taxes when there has been public understanding that change is needed. A one-off tax on banks was introduced by the Conservatives under Prime Minister Thatcher. A one-off tax on privatised utilities was implemented by Labour under Prime Minister Blair. In both cases they were motivated by the specific circumstances of the time, so neither had wider economic repercussions. A one-off wealth tax could be seen in a similar light now, sharing the burden of paying for the crisis across those with the broadest shoulders.

In the aftermath of a crisis, difficult choices need to be made and there is probably more public acceptance of the need for change than in normal times. We have seen with climate change that ducking tough choices today leads to even tougher choices tomorrow. ‘To govern is to choose’, as Nigel Lawson, a chancellor who did make radical changes to our tax system, put it.

At a time when there appear to be no good options left, it is worth keeping an open mind about the choices that lie ahead.

Lord Gus O’Donnell

Cabinet Secretary and Head of the Civil Service, 2005–11

Former Permanent Secretary to HM Treasury

Executive Summary

It has been nearly half a century since a wealth tax was last seriously considered in the UK. Fifty years on, much has changed in the economic circumstances of the UK, the technological capacity to administer a wealth tax, and the requirements on disclosure of offshore wealth. Old plans therefore cannot simply be picked 'off the shelf'. And yet, at a time when we face the largest public finance crisis since the Second World War, there is clearly a renewed urgency to 'think big' on tax policy. We felt that the lack of a robust evidence base on wealth taxes risked leaving the UK unprepared for this critical debate.

In April 2020, we commissioned a network of world-leading experts on tax policy to provide this evidence. Our contributors included academics, policymakers and tax practitioners, because it is our view that good tax design demands interdisciplinary expertise and a connection with the 'real world'. We drew heavily on international experience, commissioning detailed studies of the operation of wealth taxes in seven different countries, written by local experts. Published in October 2020, the resulting series represents the largest repository of evidence on wealth taxes globally to date. It comprises half a million words across more than thirty papers, covering all aspects of wealth tax design – both principle and practice.

In this report we draw on our contributors' findings to inform our own conclusions and recommendations to government. We stress that these conclusions are ours alone, and do not necessarily represent the views of our contributors. Nevertheless, we thank them for their input, without which this report would not have been possible. We are also grateful for the extensive engagement of civil society organisations, representatives of business, and staff at HM Revenue and Customs (HMRC) and HM Treasury, throughout our deliberative process. Likewise, we stress that these engagements do not signify any endorsement of our view.

We present below our conclusions on the principles, design and delivery of a wealth tax for the UK. We consider both one-off and annual wealth taxes, reaching different conclusions on the merits and practicalities of each. We also make recommendations on specific design choices where there are clear reasons to take a particular position, leaving open some remaining issues where there are trade-offs that require the exercise of political judgement.

In particular, as we have made clear from the inception of this Commission, it is not our business to make recommendations on the rates or thresholds that should apply under a wealth tax. Nor do we endorse any specific revenue target. These are archetypal matters of political judgement and democratic deliberation, since they form the main levers that determine the distributive effects of the tax i.e. who pays and how much. Our own views on such issues carry no special weight, and indeed since we do not agree amongst ourselves on these questions, it would not in any case be possible for us to venture a consensus opinion.

That said, we do provide a separate report with detailed modelling containing our estimates of how much a wealth tax *could* raise, and from whom, at different rates and thresholds. The options presented there, and referenced in this report, should be read as possibilities, rather than our own prescriptions. We also highlight certain key design issues and trade-offs that are affected by the rates and thresholds chosen.

What is a wealth tax?

A 'wealth tax' is a **broad-based tax on the ownership of net wealth**. By 'broad-based', we mean a tax on most (or all) types of asset, not only a specific type such as property. By 'net wealth', we mean a person's assets minus their debts.

This is distinct from other taxes that relate to wealth, of which the UK has many. For example, inheritance tax (IHT) is a tax on *transfers of wealth* between individuals. Capital gains tax (CGT) is a tax on *increases in the value* of particular items of wealth. Council tax is a tax on the value of housing, albeit based on a 1991 valuation, and independent of whether the property is rented, owned with a large mortgage or owned outright.

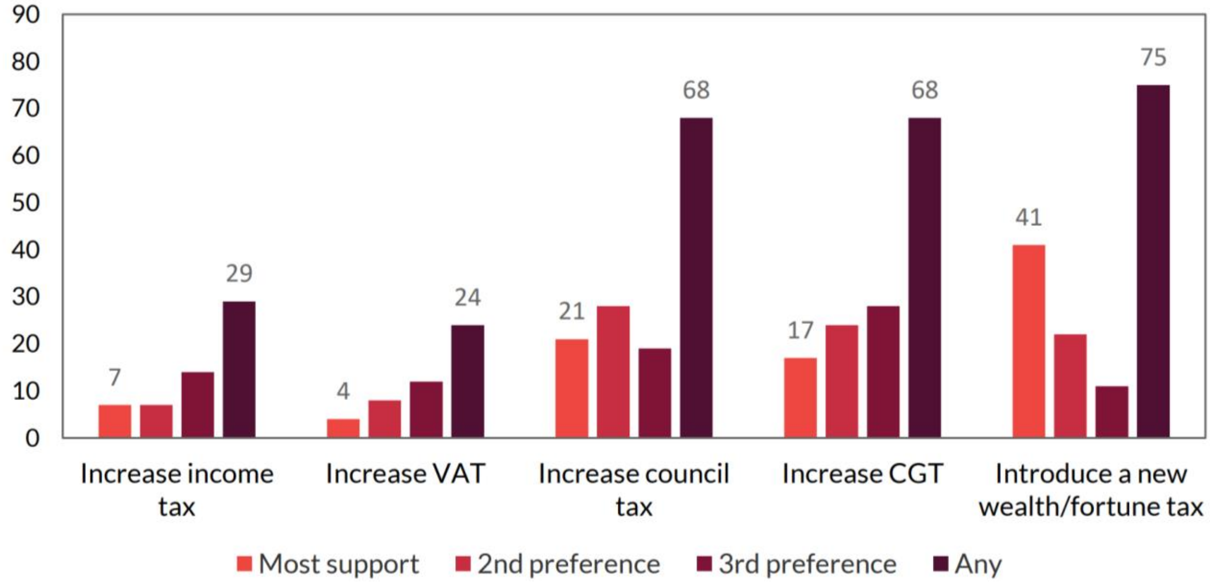
We consider below two distinct types of wealth tax: a one-off wealth tax and an annual wealth tax. These have different economic justifications, and face different practical and political constraints. But we first set out the potential rationale for considering a wealth tax at all.

Why have a wealth tax?

Public attitudes show a clear desire for wealth to be taxed more, relative to labour. Work on public attitudes carried out as part of the research of this Commission showed a clear preference for any tax increases to fall on wealth rather than on income.[1] A wealth tax – rather than some other tax on wealth – was the most popular suggestion.

This in itself is not a reason for a wealth tax – tax is a technical subject, and we believe that good tax design requires the input of relevant experts. However, we think it is essential to understand the objectives people have in mind when they support a particular tax. These objectives can then be used to benchmark a wealth tax against alternatives.

FIGURE ES.1: PREFERENCES FOR PARTICULAR TAXES IF AN INCREASE WERE TO TAKE PLACE



Source: Rowlingson, Sood and Tu, 2020.

[1] VAT is a tax on both income and wealth, since it taxes spending out of either in the same way.

Individuals were therefore asked for what they considered to be the best case for and against a wealth tax. From their responses we derive four key objectives that were desired in a wealth tax:

(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

We also added a fifth test:

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

We consider how a one-off wealth tax and annual wealth tax measure up against these principles, and what design features each must have.

One off wealth tax

The defining feature of a one-off wealth tax is that it would be a one-off exceptional response to a particular crisis. Individuals would only be taxed once based on the wealth they owned valued at a particular date. They would still be allowed to pay the tax in instalments over a number of subsequent years, to reduce the cost in any single year, but the amount of tax would be based on their wealth on the initial assessment date.

Achieving objectives

A one-off wealth tax can raise substantial revenue. After accounting for non-compliance and administration costs, **a one-off wealth tax payable on all individual wealth above £500,000 and charged at 1% a year for five years would raise £260 billion; at a threshold of £2 million it would raise £80 billion.** This would be paid by individuals whose total wealth *after mortgages and other debts*, and *after splitting the value of shared assets such as a jointly-owned family home*, exceeded the tax threshold, and only on the value of wealth above that threshold. To be clear, a wealth tax levied at 1% above £500,000 would require a couple to have net wealth of more than £1 million before any wealth tax would be payable.

Alternative tax rises which could also raise £250 billion over five years include:

- Basic rate of income tax to rise by 9p (20p to 29p)
- All income tax rates to rise by more than 6p
- All VAT rates to rise by 6p (taking main rate from 20p to 26p)
- Corporation tax to rise by 5p *and* VAT to rise by 4p.

A one-off wealth tax would be economically efficient. Since it is based on wealth at a (past) point in time, a one-off wealth tax does not distort behaviour. In contrast, income taxes on employment and self-employment reduce incentives to work, capital taxes reduce investment, corporation taxes encourage companies to reduce (UK taxable) profits.

The efficiency case relies on the wealth tax being credibly one-off. If it were anticipated the tax would be levied again, this would not be the case. This explains why historically one-off taxes have largely been used after major crises, providing a compelling rationale for their unique nature. The UK has also had past one-off taxes, including the 1981 windfall tax on banks (under

Margaret Thatcher) and the 1997 windfall tax on privatised utilities (under Tony Blair). It also relies on people not being able to respond before the tax is introduced.

TABLE ES.1: REVENUE ESTIMATES FOR A ONE-OFF TAX – FLAT AND PROGRESSIVE TAXES

Threshold per individual (£)	Annualised rate	Revenue (£bn)	Taxpayers ('000)	Administrative cost (£bn): to taxpayer	Administrative cost (£bn): to govt
Flat tax at 5%					
10,000,000	1%	43	22	1	0.6
5,000,000	1%	53	83	1	0.6
2,000,000	1%	81	626	2	0.7
1,000,000	1%	147	3,004	4	1
500,000	1%	262	8,246	7	2
250,000	1%	390	15,537	10	3
Flat tax raising £250bn					
1,000,000	1.71%	250	3,004	4	1
500,000	0.95%	250	8,246	7	2
250,000	0.64%	250	15,537	10	3
Progressive taxes raising £250bn					
1,000,000	0.8%	250	3,004	4	1
2,000,000	1.6%				
5,000,000	2.4%				
10,000,000	3.0%				
500,000	0.6%	250	8,246	7	2
1,000,000	1.0%				
2,000,000	1.2%				
5,000,000	1.4%				
10,000,000	1.6%				

Notes: These revenue estimates account for 10% of tax revenue being lost to non-compliance.
Source: Advani, Hughson and Tarrant, 2020.

By construction, **a one-off wealth tax will raise more tax from those who have more wealth**. How much more depends on the tax design: different tax rates and thresholds will raise different amounts of money and from different people. In a report published alongside this one, we detail the distributional effects of alternative options.[2] However, it is important to note that a one-off wealth tax is not (necessarily) about redistribution *per se*. Rather, it is a relatively progressive way of raising revenue, compared with alternative approaches that might be considered. The extent of progressivity is a matter of choice.

Well-designed one-off taxes are very difficult to avoid, since they are based on behaviour that has already occurred and past values. Assuming that a one-off wealth tax was assessed by reference to wealth on the same day as (or shortly before) the policy was announced, there would be very little chance to respond, although we still account for a tax gap from legal avoidance and non-compliance in the revenue estimates above. However, the cost of this is that a one-off wealth tax is necessarily insensitive to subsequent changes in wealth, since the tax due is fixed at the outset.

[2] Advani, A., Hughson, H. and Tarrant, H. (2020), 'Revenue and Distributional Modelling for a Wealth Tax' *Evidence Paper 13*, Wealth Tax Commission

Design

A one-off wealth tax is feasible to design for the UK. In the body of this report we set out the detailed considerations around particular design choices. Here we simply set out the conclusions we reach in terms of design, and a brief explanation of key points.

The **tax should be levied on an individual rather than on a household basis**, although there could be provision to allow couples to choose to be jointly assessed.[3] An individual basis of assessment is consistent with (most of) the rest of the personal tax system, making administration easier in terms of integration with existing tax filing mechanisms.

A one-off wealth tax should include all property of an individual in the tax base. This flows from a horizontal equity argument: individuals of similar means should not be taxed differently because (for example) one owns a house while the other holds cash while they wait to buy a house, or one has their savings in a pension while the other has reinvested their savings in their business.

Assets should be valued based on their *open market value* (OMV) i.e. 'the price which the property might reasonably be expected to fetch if sold in the open market'. For most asset classes these are readily available, and could be straightforwardly reported: savings, pensions, and listed shares. The value of housing and land would in the first instance be calculated by the Valuation Office Agency (VOA). This minimises the cost for taxpayers of getting valuations. However, householders would have the right to challenge the valuation if they believed it to be incorrect. Shares in private companies would require professional valuation. Business valuations would be completed at company level, and the value of specific shareholdings then reported to individual shareholders.

Payments could be deferred by those who are liquidity constrained ('asset-rich-cash-poor'). A concern people have about a wealth tax is that someone might be required to sell a large, illiquid asset – typically the family home – to pay what might be only a relatively small amount of tax. The scale of this problem varies with the rates and thresholds set. Assuming that individuals have no possibility to borrow to pay the tax, at a threshold of £500,000 (£1 million per couple) with an annual rate of 1% for five years, 570,000 people are liquidity constrained; that falls to 65,000 at a threshold of £2 million. Nevertheless, whatever the scale, it is crucial that measures are available to reduce unnecessary hardship.

We recommend three measures to reduce the cost of liquidity constraints. First, wealth tax due in respect of pension wealth should be payable out of the pension lump sum on retirement, for those not yet at state pension age. This wealth cannot be accessed in working life, so deferral and automatic withholding should be allowed. Second, the standard payment period for a one-off tax would be five years. Third, where the taxpayer would still have difficulty paying, they could apply for a further deferral of the payment, under a specially devised statutory deferral scheme.

We firmly reject any adjustment of the tax owed by reference to income – if a wealth tax is desirable, its distinctive feature is raising revenue from those who hold wealth that is large in relation to their income.

[3] In Appendix A we discuss in more detail the treatment of trusts, and of tax residence.

Delivery

Delivering a one-off wealth tax from inception through to full operation would be a major undertaking. Although one can point to entirely new taxes introduced within the recent past, there are none on this scale. Nevertheless, we have seen in relation to both Brexit and COVID-19 that HMRC and HM Treasury are well-capable of acting expeditiously, when given proper resourcing and government backing. Looking further back, after plans for national insurance were announced by Churchill in 1943, the system was up and running by 1947. Meanwhile, PAYE was introduced – using only paper records – whilst the Second World War was still ongoing. Times of crisis are also opportunities to think big.

We do not consider that this approach would be 'retrospective' or contrary to individuals' legitimate expectations. Public policy must strike a balance between forewarning and efficiency. There is plenty of evidence that pre-announcing tax reforms can be severely detrimental to their effectiveness.

Annual wealth tax

Unlike a one-off wealth tax, an annual wealth tax would require regular reassessments of wealth, with tax due changing as wealth changed. If it were introduced, it would also be a permanent addition to the UK tax system (as much as any tax is permanent), rather than a temporary measure.

Based on its ability to achieve the objectives below, **we recommend that instead of an annual wealth tax, the government should reform existing taxes on wealth.** Many existing taxes on wealth have major structural flaws, and recommendations for improvement have come from many sources.

An annual wealth tax would only be justified in addition to these reforms if the aim was specifically to reduce inequality by redistributing wealth. We do not take any position on whether the government should use tax policy actively to reduce wealth inequality. *If* this were the government's aim, there are limits to the extent of redistribution that can be achieved using existing taxes on wealth, even after reform. An annual wealth tax could be justified on this conditional basis, but proponents should be clear that this is their aim and that it may be difficult to achieve.

Achieving objectives

Like a one-off wealth tax, an annual wealth tax should include all types of wealth. However, three features would reduce the revenue that could be raised. First, administrative costs would be higher since asset valuations are needed regularly. Depending on the rate selected, this sets a lower bound on the threshold where a wealth tax can start. Second, liquidity concerns may limit the tax rate that could be set. Payment deferral is not easy, since each year new tax would be due. Third, unlike a one-off tax, individuals would have more scope to change their behaviour to reduce their tax liability. Evidence from countries where annual wealth taxes exist suggests around 7–17% of the initial tax base would be lost to avoidance at a tax rate of 1%.

Taking into account these limitations, Table ES.2 shows the tax rates needed to raise £10 billion a year in wealth tax. This revenue target is merely set as an example, and is roughly equivalent to adding 2p to the basic rate of income tax or almost 2p to VAT, and is twice what is received from IHT. **A wealth tax starting above £2 million at a rate of 0.6% can raise £10 billion after**

ongoing administrative costs. Before accounting for liquidity solutions, 44,000 people (7% of those paying) would be liquidity constrained.

TABLE ES.2: REVENUE ESTIMATES FOR AN ANNUAL TAX – FLAT AND PROGRESSIVE TAXES

Threshold per individual (£)	Rate	Revenue (£bn) Low avoidance	Revenue (£bn) High avoidance	Taxpayers ('000)	Administrative cost (£bn): to taxpayer	Administrative cost (£bn): one-off to govt	Administrative cost (£bn): per year to govt
Flat taxes							
10,000,000	1.12%	9.9	8.7	22	0.7	0.6	0.003
5,000,000	0.91%	9.9	9.0	83	1	0.6	0.01
2,000,000	0.57%	9.9	9.4	626	2	0.6	0.1
1,000,000	0.31%	10.0	9.7	3,004	4	0.6	0.5
500,000	0.18%	10.2	10.0	8,246	7	0.6	1.2
250,000	0.12%	9.9	9.8	15,537	10	0.6	2
Progressive taxes							
1,000,000 2,000,000 5,000,000 10,000,000	0.10% 0.25% 0.50% 0.65%	9.9	9.4	3,004	4	0.6	0.1

Notes: The rates target £10bn in revenue, taking a low level of avoidance into account, before the deduction of administration costs.
Source: Advani, Hughson and Tarrant, 2020.

The theoretical case for or against an annual wealth tax on efficiency grounds is not straightforward. An annual wealth tax, like all other regular taxes, does affect behaviour. Like income tax and VAT, it reduces the value of work. Whether it is any worse than those taxes, in terms of economic efficiency, is not clear. The key issue is what it does to savings decisions and what the impacts of this are. Theoretical arguments can be made both that it worsens and that it improves efficiency, under different assumptions, but the empirical evidence is weak.

If the only goal of an annual wealth tax is to raise (relatively) more tax revenue from people with wealth, this does not necessarily require a new wealth tax. Existing wealth taxes could simply be adjusted, and this would bring in more revenue from people with wealth. We describe below some proposals that others have made.

If the goals include actively reducing wealth concentration (rather than merely raise necessary revenue more heavily from those with wealth), a wealth tax with a high rate could achieve this, but only if avoidance behaviours could be minimised.

Design

Most of the design choices would be as with a one-off wealth tax. We note here two key differences.

It is even more important for an annual wealth tax to include all assets in the tax base. Unlike a one-off tax, exclusion of assets has severe consequences for efficiency and the revenue raised. Evidence from wealth taxes in other countries shows that individuals are very likely to move assets into lower taxed or untaxed asset classes where these exist.

However, this presents a tension: the base has to be comprehensive to prevent avoidance but valuation of assets such as private businesses is more problematic when it requires doing regularly. Valuations can be made periodic (for example assets would only need to be revalued every five years) or formulaic methods for assets such as private businesses could be used, but we consider them all to be unsatisfactory. In each case they open the door to additional avoidance opportunities, by creating differences in the treatment of asset classes or by allowing individuals to 'game' the valuation date (adjusting asset holdings around that time).

There is a similar tension in terms of thresholds: administrative costs dictate that an annual wealth tax is limited to those with wealth over a relatively high threshold such as £1 million per individual (£2 million per couple). However, higher thresholds are likely to lead to increased avoidance as families split their wealth over a wider number of people to take advantage of that threshold.

Delivery

The timeline for delivering an annual wealth tax would likely be longer than for a one-off wealth tax. We note an important risk with the delivery of an annual wealth tax is the increased pressure that would come from different interest groups. The resulting requests for exemptions, discounts and reliefs may individually each have some justification. However, the evidence from other countries is that, taken together, such reliefs would fatally undermine the tax base and create scope for avoidance.

Alternatives to a wealth tax

Whether a wealth tax is necessary to achieve the goals set out above, depends on what the alternatives are. The most obvious alternative would be to reform our existing taxes on wealth: in particular IHT, income tax (on investment income), CGT and council tax. These taxes currently lack a clear set of objectives, and their design creates large distortions.

There have been numerous prior recommendations for reform. Each of these proposals differ in the details, but there is a measure of agreement on certain points. We do not set out any precise shopping list of proposals, since we have not examined the design and administrative details to the same degree of precision as for a wealth tax. Instead we summarise the main criticisms of existing taxes and list several broad directions for reform based on recommendations that have been made by others. Implementing any of these reforms requires legislative time and political capital, but all are likely to be administratively easier than a broad-based annual wealth tax.

Other recommendations

In reaching these conclusions, we have relied on the best data that are available for the UK. These come predominantly from the Office for National Statistics (ONS) Wealth and Assets Survey, but this appears to be missing wealth at the top. We supplement these data with information from the Sunday Times Rich List, but anecdotally this list is far from complete. In this respect, unusually, there is substantial uncertainty over even static estimates of how much revenue could be raised by either an annual or one-off wealth tax: our numbers on at least a one-off wealth tax where the behavioural effect may be more limited should be considered a definite lower bound. **We recommend significantly increased investment of resource in wealth data and analysis** by ONS and HMRC. This is important for the understanding of any taxes on wealth, not only a wealth tax specifically.

A second key constraint is capacity within the civil service, particularly at HMRC. Much of the difficulty in implementing a wealth tax lies in the capacity HMRC has to deliver a system. The example of the furlough scheme shows that systems can be designed quickly, but also that relying on quick design can be expensive and is more likely to have problems. Unusually for a tax authority, HMRC does not currently have records on the value of individual properties. This makes the design and implementation of a wealth tax harder, but it also limits the scope for better policy design in other ways, for example performing a revaluation for council tax. Investment in HMRC capacity is essential not only for any possible wealth tax, but for the implementation of any number of other reforms that might be desired.

1. Introduction

It has been nearly half a century since a wealth tax was last seriously considered in the UK. In the aftermath of the Second World War, the idea of a wealth tax was suggested by Cambridge economist Nicholas Kaldor, who later served on the Royal Commission on Taxation (1951-55). In 1974, the government published initial proposals for a wealth tax, but these were shelved two years later. The Meade Report, published by the Institute for Fiscal Studies in 1978, also favoured an annual tax on wealth, but again these proposals came to nothing.

Fifty years on, much has changed in the economic circumstances of the UK and its technological capacity to administer a wealth tax. There are now much tighter requirements on disclosure of offshore wealth and there is more evidence available on how wealth taxes have worked (or not) in other countries. Old plans therefore cannot simply be picked 'off the shelf'. And yet, at a time when we face the largest public finance crisis since the Second World War, there is clearly a renewed urgency to 'think big' on tax policy. We felt that the lack of a robust evidence base on wealth taxes risked leaving the UK unprepared for this critical debate.

In April 2020, we commissioned a network of world-leading experts on tax policy to provide this evidence. Our contributors included academics, policymakers and tax practitioners, reflecting our view that good tax design demands interdisciplinary expertise and also a connection with the 'real world'. We drew heavily on international experience, commissioning detailed studies of the operation of wealth taxes in seven different countries, written by local experts. Published in October 2020, the resulting series represents the largest repository of evidence on wealth taxes globally to date. It comprises half a million words across more than thirty papers, covering all aspects of wealth tax design – both principle and practice.

In this report we draw on our contributors' findings to inform our own conclusions and recommendations to government. We stress that these conclusions are ours alone, and do not necessarily represent the views of our contributors. Nevertheless, we thank them for their input, without which this report would not have been possible. We are also grateful for the extensive engagement of civil society organisations, representatives of business, and staff at HM Treasury, HMRC and the VOA, at various stages of our deliberative process. Likewise, we stress that these engagements do not signify any endorsement of our view.

We present below our conclusions on the principles, design and delivery of a wealth tax for the UK. We consider both one-off and annual wealth taxes, reaching different conclusions on the merits and practicalities of each. In both cases we highlight the key principles that ground the justification for and design of the tax. We also make recommendations on specific design choices where there are clear reasons to take a particular position, leaving open some remaining issues where there are trade-offs that require the exercise of political judgement, or are otherwise beyond the scope of our own technical expertise.

In particular, as we have made clear from the inception of this Commission, it is not our business to make recommendations on the rates or thresholds that should apply under a wealth tax. Nor do we endorse any specific revenue target. These are archetypal matters of political judgement and democratic deliberation, since they form the main levers that determine the distributive effects of the tax; i.e. who pays and how much. Our own views on such issues carry no special weight, and indeed since we do not agree amongst ourselves on these questions, it would not in any case be possible for us to venture a consensus opinion.

That said, there are two key respects in which we deal with issues of rates, thresholds and revenues. The first is that, accompanying this report, we are also releasing detailed modelling containing estimates of how much a wealth tax *could* raise, and from whom, at different rates and thresholds (Advani, Hughson and Tarrant 2020). The options presented there, and referenced in this report, should be read as possibilities, rather than our own prescriptions. They are based on the best publicly available data on wealth in the UK, and the latest estimates of behavioural responses drawn from the economic literature. In the accompanying paper the authors explain in detail their methodology and the remaining uncertainties.

Second, we also highlight certain key design issues that are affected by the rates and thresholds chosen. These include how low the rate could go before administrative costs become prohibitively large relative to the revenue that could be raised; the thresholds and rates at which liquidity issues start to affect large proportions of the taxpayer population; and how different thresholds affect avoidance behaviour. These design issues lead us to conclude that there are some 'bounds' on the rates and thresholds that are feasible under a wealth tax, although these would still leave significant scope for a government to make choices about the distributional effects of the tax.

Finally, and very importantly for the current framing of our analysis, we do not take any position on when is the appropriate time for the UK government to raise taxes. That is a macroeconomic question on which we profess no specialist expertise. Instead, we proceed on basis that *if and when* tax rises do occur – which we observe seems likely in the medium-term, although not imminently – it is important to have an informed debate about the role of a wealth tax. Such a debate is only possible when grounded in the evidence, which we attempt to synthesise in this report.

2. What is a wealth tax?

Our remit is to consider the principles and practice of a *broad-based tax on the ownership of net wealth,* which throughout this report we refer to as a 'wealth tax'. By 'broad-based', we mean a tax on most (or all) types of asset, not only a specific type such as housing. By 'net wealth', we mean a person's assets minus their debts. For example, if someone owns a house with a mortgage, their net wealth is the value of the house less the outstanding loan. As we discuss in Section 4.2.2 below, our definition of wealth encompasses all types of property, but none of the other advantages that an individual may possess that are not legally enforceable, such as 'human capital'.

There are, of course, many other ways of taxing people with wealth. Summers (2020) lists existing taxes on the *transfers of wealth* (IHT), *returns on wealth* (income tax and CGT), and the *spending of wealth* (value added tax (VAT)), as well as narrow-based taxes on the *ownership of specific forms of wealth* (annual tax on enveloped dwellings (ATED), and in some respects council tax). Specific proposals for reform of these existing taxes on wealth are beyond the scope of this report,[4] although we highlight the options put forward by others in order to relate these to the role of a wealth tax (see Section 4.1.5).

In this report we give separate treatment to two different types of wealth tax: a *one-off* wealth tax and an *annual* wealth tax (which is a type of recurring tax). At first glance, this might seem like a trivial distinction, especially when viewed prior to the initial implementation of either option. However, we argue that it is important to distinguish these two forms of wealth tax because they each have different economic justifications and face different practical constraints.

The key difference between a one-off and an annual wealth tax is whether the *assessment* of tax happens only once or is instead recurrent. The time period over which the tax is paid is irrelevant to this distinction and could be multiple years in either case. In other words, a one-off wealth tax could be collected annually, but that would not make it an annual wealth tax, provided that the initial assessment was not repeated.

The defining feature of a one-off wealth tax is therefore that the amount of tax that is due is fixed from the outset (the 'assessment date') and does not vary according to any subsequent changes in the taxpayer's wealth. Nor does the rate vary later. In order to alleviate liquidity concerns, it would typically make sense to allow taxpayers to pay the tax gradually over a number of years. However, this is essentially just like paying the instalments on a loan; there is no new tax levied after the initial assessment.

By contrast, under an annual wealth tax there is a new assessment every year, which means that an individual's tax liability can change each year, depending on changes in their level of wealth. There are of course variants on this approach where reassessments are instead done less often, for example triennially or decennially. Reassessment might seem like an attractive feature in that the tax is (in one sense) more closely tied to changes over time in the taxpayer's ability to pay. However, it also means that people may try to respond to the tax in ways that minimise their liability at the next assessment, and it increases the costs of administering the tax since new valuations and tax returns are required on each occasion.

Because a one-off wealth tax is levied only once, it tends to come with a higher headline rate than an annual wealth tax. A rate that would not be desirable or feasible if levied year-on-year

[4] For further analysis, including a summary of the main options, see Summers (2020).

indefinitely may be appropriate under a one-off wealth tax, especially if the tax is paid in instalments over a number of years following the assessment date. In these circumstances the headline rate can be expressed as an 'annual equivalent' rate over the period of repayment, but again, this does not make it an annual wealth tax, because the payments are fixed from the outset rather than reassessed annually.

Although the UK has never had either a one-off or annual wealth tax, there is plenty of international experience of both. Critics of a wealth tax often argue that they have failed elsewhere, but this betrays a very partial understanding of the international evidence (see further Perret, 2020) and tends to draw exclusively on annual wealth taxes as the basis for that conclusion. Before re-examining this and other evidence, we turn first to the question of why people might (think that they) want a wealth tax, of either type.

3. Why have a wealth tax?

The relationship between public attitudes to tax and the process of tax policymaking is complex. On the one hand, tax is a technical subject, so we believe that good tax design does require the input of relevant experts – indeed that is the whole point of this report. On the other hand, tax also raises deep questions about what kind of society we want to live in. We think it is obviously right that these aims should be decided on by the public, through democratic processes. It is not for experts to tell the public what they should want.

For this reason, we draw a distinction between polling on particular tax policies, and evidence on why people want those policies. It might be that people are mistaken in thinking that a particular policy – such as a wealth tax – will achieve what they want it to achieve. That is an issue on which experts can play a useful role. But we do not think that the public can be 'mistaken' about their vision for what kind of society they would like to live in. The impression that some experts hold this view has been damaging to public trust in expertise.

Our approach is therefore to take very seriously the reasons *why* people think they want a wealth tax, and then apply our skills in economics, law and administration to examine whether and to what extent a wealth tax would achieve those objectives. We take somewhat less seriously people's current policy preferences, which we recognise may be contingent in various ways and will likely evolve as the public learn more about how a wealth tax would work. Still, we draw on some initial evidence on these preferences as a guide to the current political viability of a wealth tax.

We are also well aware of the methodological challenges involved in ascertaining people's underlying motivations for particular policies.[5] Notwithstanding these, we think we can learn useful insights by asking the public what they think about a wealth tax, through a combination of large-scale surveys and in-depth focus groups. To this end, we commissioned work by Professor Karen Rowlingson in collaboration with polling experts from Ipsos Mori, to produce the UK's most detailed ever study of public attitudes to a wealth tax (Rowlingson, Sood and Tu, 2020).

Below, we summarise the key findings from this research and relate them to established principles of good tax design. We start by observing that a wealth tax is currently popular with the public, whilst acknowledging important caveats to this conclusion. We then focus more closely on some of the reasons why the public said they were in favour of a wealth tax, and also what worries they had about this policy. We try to unpack these motivations and concerns in order to turn them into a series of criteria, which we later use to benchmark proposals for a one-off or annual wealth tax.

3.1 Support for a wealth tax

Previous surveys have found high levels of support for a wealth tax, but these proposals excluded the two forms of wealth that individuals were most likely to possess themselves: main homes and pensions. On this basis, a poll conducted by YouGov in May 2020 found that 61% of adults would support an annual wealth tax on assets above £750,000, while 14% were opposed. A more recent study conducted by Demos (2020) found even higher levels of support for a one-

[5] In relation to a wealth tax, these are well summarised in Rowlingson et al., 2020.

off wealth tax on assets over £2 million (63% in favour, 11% against), but again excluding main homes and pensions.

The study by Rowlingson, Sood and Tu (2020) instead set out to test the level of support for a comprehensive wealth tax that included all assets. In July 2020, they surveyed a nationally representative sample of over 2200 UK adults, asking which tax increases they would most support if the government decided to raise taxes.[6] Individuals were allowed to rank up to three choices from five available. The most preferred option was to introduce a wealth tax starting at £1 million with no exclusions (41%).[7] This had almost twice as much support as increasing council tax on properties over £1 million (21%), increasing income tax on all earners (7%) or increasing VAT (4%).

Amongst those who voted Conservative in 2019, a new wealth tax was still the most preferred option (34%), and 67% of this group listed it in their top three options (compared with 82% of Labour voters). Support was also high across the income distribution: 69% of those with incomes above £55,000 ranked it within their top three options, compared with 72% of those with incomes below £20,000. The wealth tax was most strongly favoured by those of middle age (35–44) but retained high levels of support across the age distribution. In these respects, support for a wealth tax was widespread.

However, in a nationally representative sample, it is likely that fewer than 5% of respondents would have been liable to pay a wealth tax over £1 million themselves. Cynics might therefore conclude that taxes are popular with those who will not have to pay them.[8] There may be something in this. On the other hand, it is not a universal truth. IHT is paid by fewer than 5% of estates and yet is infamously regarded as the UK's most 'unfair' tax (Shakespeare, 2015). Moreover, 44% of respondents said that they would be prepared to pay more tax themselves, compared with 29% who preferred cuts to public services.[9] We return to the issue of self-interest below.

When asked to choose the threshold at which a new wealth tax should apply, the most preferred option was £500,000 per individual, on all assets net of debt. This option was favoured by 36% of respondents, compared with 18% who preferred a lower threshold of £250,000, and 31% who preferred a higher threshold of £2 million. Only 8% of all respondents answered that wealth should not be taxed, rising only slightly to 11% amongst Conservative voters. On the other hand, perhaps reflecting self-interest given disparities in house prices, respondents from London and the South East were more likely than those from other regions to favour a higher threshold.

3.2 Reasons for a wealth tax

As we have noted, polling on specific policy preferences reflects a snapshot of public opinion that may be influenced by a range of factors. In the case of a wealth tax, perhaps the most obvious is that the policy is likely to have been largely unfamiliar to those who participated in Rowlingson, Sood and Tu's study. Although the survey respondents and focus group participants were provided with information – in the form of examples – to help explain how a wealth tax

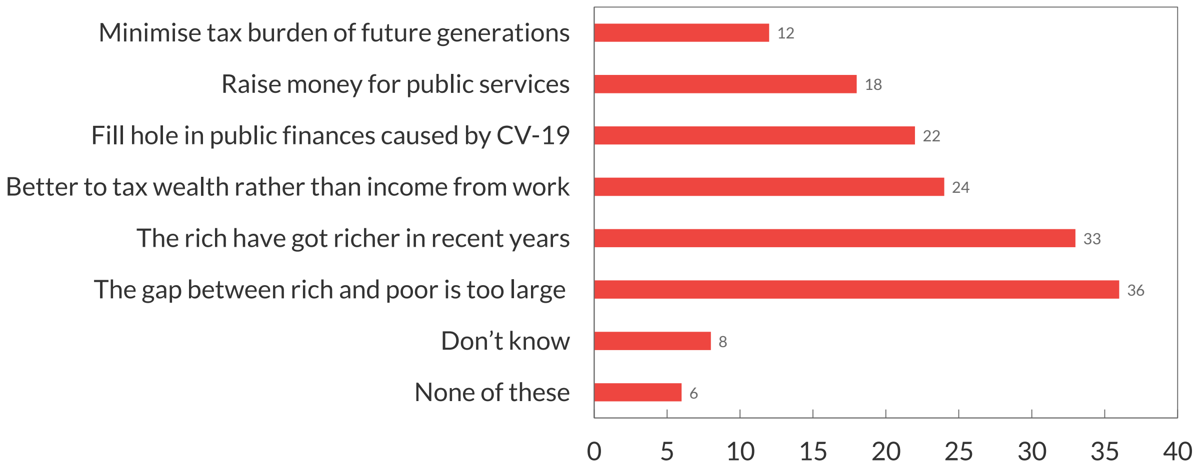
[6] The survey question was: 'If the government decides to raise taxes in order to fund public services, which of the following measures, if any, would you most strongly support?'.
[7] The question did not specify whether this threshold was per individual or per couple/household.
[8] Rowlingson, Sood and Tu (2020, p.5–6) discuss this explanation under the rubric of 'rational choice theory', but also point to numerous studies showing that this fails to fully explain public attitudes to taxation.
[9] 49% of those on incomes over £55,000 supported tax rises compared with 37% of those on incomes up to £20,000.

would operate, there was inevitably no way to convey the full complexity of the issues discussed in this report.

But we can also learn from the reasons *why* people said that they supported a wealth tax (or not). We regard these insights as ultimately more important than people's conclusions about particular policy designs, since they get at participants' underlying motivations and concerns,[10] which are less dependent on factual understandings about the application and effects of the tax. In the following, we group these ideas into four broad categories, which form the criteria that we use to evaluate proposals for a one-off or annual wealth tax later in the report.

Rowlingson, Sood and Tu (2020) asked survey respondents what they considered to be the best arguments for and against a wealth tax (Fig. 1). They were prompted with a list of six possible arguments in favour and were then asked to select the one or two that they most strongly supported. They were also given seven possible arguments against and again asked to choose. In each case, respondents also had the option to select 'none of these' or 'don't know'.[11] People's motivations and concerns about a wealth tax were also discussed in the focus groups, without any structured list of options.

FIGURE 1: SUPPORT FOR ARGUMENTS IN FAVOUR OF A WEALTH TAX



Source: Rowlingson, Sood and Tu (2020).

The most popular arguments for a wealth tax centred around reasons of **fairness**. The top reason given was that 'The gap between rich and poor is too large and a wealth tax would help to reduce it' (36%), followed by 'The rich have got richer in recent years. It's time for them to give something back.' (33%). Both of these responses reflect a concern with wealth inequality. However, this does not necessarily mean that the public favoured a radical redistribution of wealth. These preferences could also be understood as reflecting ideas about who could fairly be asked to contribute more in a context where tax rises were needed. Not raising revenue from those with relatively high wealth inevitably means raising it instead from those with less.

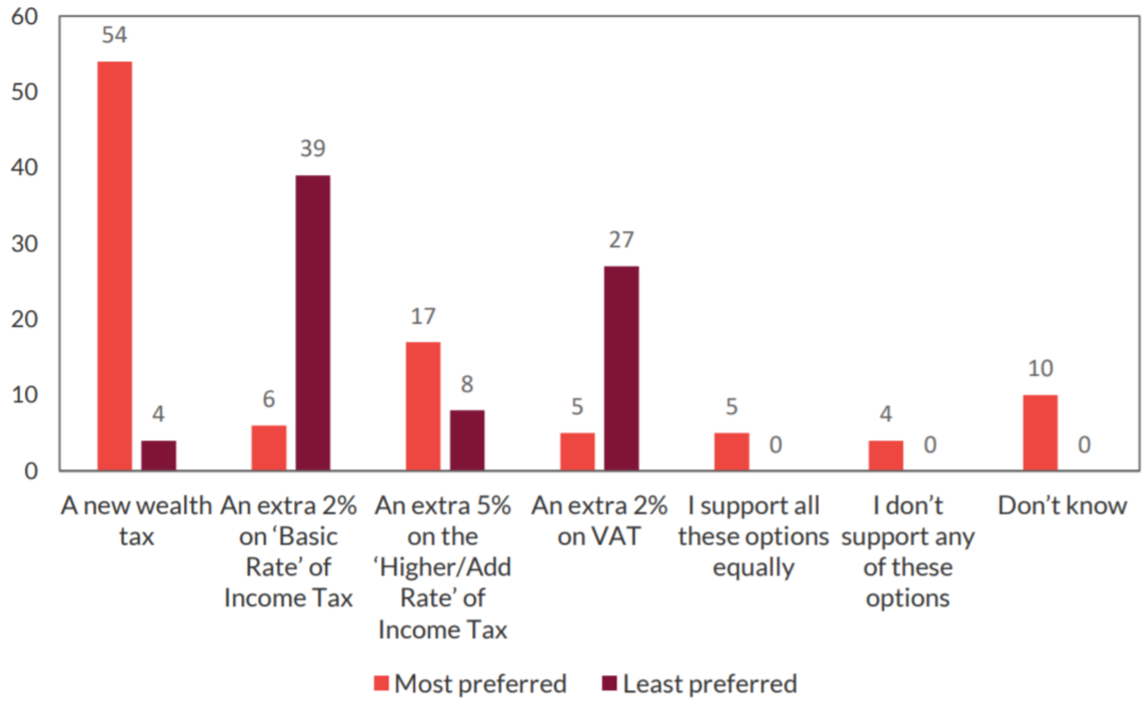
Another fairness argument, which ranked as the third most popular option (24%), was that 'If taxes have to increase, it's better to tax wealth rather than income from work'. As we noted

[10] Even so, we recognise that these attitudes and beliefs are also not formed in a vacuum and reflect prevailing ideas and narratives, rather than purely innate preferences.
[11] Support for any of the arguments against a wealth tax was lower than for arguments in favour. 23% of individuals did not support any of the arguments against (equally split between answering 'none of these' and 'don't know'), compared with 14% who could not find any argument in favour.

above, cynics might again observe that this can be explained by self-interest. Yet it is also true, simply as a matter of fact, that returns on wealth are currently taxed at substantially lower rates than earnings. The top rate of tax on capital gains is 28%, compared with an effective top rate of over 60% on employment income, once we take into account both income tax and NICs. We discuss whether or not an annual wealth tax would actually be an appropriate way to redress this imbalance in Section 5.1.

Apart from reasons of fairness, the next most popular argument for a wealth tax was to **raise revenue**. 22% of respondents selected 'The Government needs to fill the hole in the public finances caused by the COVID-19 pandemic'. As a Conservative voter said in one of the focus groups: 'At the end of the day, we're in the situation we're in … we need extra revenue… as horrible as it is, we need to find the money from somewhere'. The fieldwork for Rowlingson, Sood and Tu's study took place over the summer of 2020, before the full scale of COVID-19's impact on public finances had become apparent. We might therefore expect this reasoning to be even more prominent in public attitudes today.

FIGURE 2: PREFERENCE FOR DIFFERENT KINDS OF TAXES TO RAISE £10BN



Source: Rowlingson, Sood and Tu (2020).

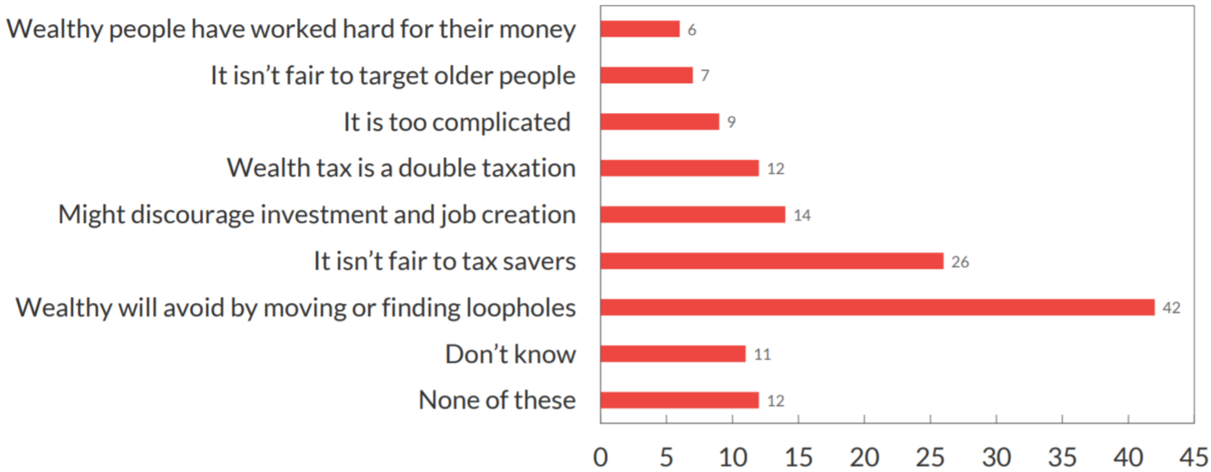
When substantial additional revenue has been required in the past, successive governments have tended to look to the existing big taxes on income and spending. However, survey respondents strongly preferred a wealth tax over these conventional options. Respondents were asked to select their most-preferred option for raising an additional £10 billion per year, out of the following alternatives:

- an extra 2p on the basic rate of income tax;
- an extra 5% on the higher and additional rates of income tax;
- an extra 2p on VAT;

- a new wealth tax[12]

A wealth tax was the most preferred option of more than half (54%) of respondents, compared with just 6% who favoured a rise in the basic rate of income tax and 5% who favoured increasing VAT (Fig. 2). A wealth tax was also significantly more popular than raising the higher and additional rates of income tax, which was favoured by 17% of respondents. Given that less than 10% of UK adults are liable for income tax at these rates, the extent of support for a wealth tax over this alternative cannot be explained purely in terms of self-interest: the vast majority of respondents would not be liable to pay either tax.

FIGURE 3: SUPPORT FOR ARGUMENTS AGAINST A NEW WEALTH TAX



Source: Rowlingson, Sood and Tu (2020).

The public also highlighted two main concerns about a wealth tax. The first was **avoidance**. The most popular argument against a wealth tax by far (42%) was that the 'The wealthy will just avoid paying the tax by moving or finding loopholes' (Fig. 3). This incorporates both the risk that wealthy people will leave, thereby paying less tax or investing less, and potential 'artificial' avoidance behaviours. The latter was of particular concern, with focus group participants saying 'Why should the rich be able to get around the loopholes and everyone else has to play by the book?' and 'So many people keep their assets offshore and that is just a fact and that should be the thing that needs looking into most'.

This concern with avoidance reflects a high degree of scepticism that a wealth tax would actually be effective in taxing the wealthiest. As we highlight below, the actual scope for avoidance differs greatly depending on whether the tax is one-off or annual; it also depends on key design features. But it is clear from these concerns that a wealth tax that turned out to be easy to avoid and which failed to ensure that the wealthiest actually paid, would be deemed a failure by the public. We therefore give careful consideration to risks of avoidance when determining our design choices for a wealth tax.

The second main concern was over what economists would call **efficiency**, although of course the arguments were not framed directly in these terms in the survey. Respondents expressed worries about the disincentive to save (and the inequity of taxing savers more than spenders), with 26% saying 'It isn't fair to tax people who have chosen to save rather than spend'. Another argument against a wealth tax, selected by 14% of respondents, was that 'Wealthy people help

[12] The thresholds and rates for the wealth tax option were also calibrated to raise £10 billion, the same as the other options.

boost our economy and a wealth tax might discourage them from investing and creating jobs'. The public were therefore aware of potential distortionary effects of a wealth tax, in line with the priorities of economists.

We distil from these findings four key criteria against which the success of a wealth tax should be judged:

(1) The tax should raise significant **revenue**
(2) It should do so **efficiently**, by not creating excessive distortions to behaviour
(3) It should also be **fair**
(4) The tax should be difficult to **avoid**

We also add a fifth criterion:

(5) A wealth tax should achieve the foregoing objectives better than the alternatives

4. One-off wealth tax

Although the idea of a one-off wealth tax on individuals is unfamiliar in the UK, there are numerous international precedents.[13] O'Donovan (2020) explains how, in the twentieth century, the enormous fiscal costs of the world wars prompted calls for capital levies in order to offset wartime expenses. In the aftermath of World War One, one-off wealth taxes were levied in Italy, Austria, Hungary and Czechoslovakia. After the Second World War, capital levies played a role in the reconstruction efforts of France, West Germany, Japan, Belgium, the Netherlands, Finland, Luxembourg, Norway and Denmark (Carroll, 1946; Robson, 1959). Similar proposals were advanced (although less often implemented) in the wake of the global financial crisis and are now receiving renewed attention as a potential response to the COVID-19 pandemic.

In the past, some one-off wealth taxes have raised substantial revenues. The Japanese levy of 1946–7 raised over 10% of national income in the year that it was collected, mainly from the wealthiest 3% of Japanese society (Shavell, 1948). The French *Impôt de Solidarité Nationale* (ISN), raised around 5% of national income for the post-war French state (Robson, 1959). The West German *Lastenausgleichsgesetz* (meaning 'burden-balancing law'), which was assessed on wealth in 1952 but paid in instalments over the following thirty years, raised 2.3% of GDP in its first year.[14] The one-off taxes that followed the global financial crisis were much more limited in scale. The Irish pension levy – introduced in 2011 – brought in around €2.4 billion, equivalent to a little over 1% of GDP. Despite this more modest revenue, the levy has generally been regarded as a success.[15]

The UK has also imposed one-off taxes in the past. In 1981, Chancellor Geoffrey Howe applied a one-off tax to 2.5% of the banks' non-interest-bearing current account deposits. Margaret Thatcher later justified the tax on the basis that the banks 'had made their large profits as a result of our policy of high interest rates rather than because of increased efficiency or better service to the customer' (Thatcher, 1993). In 1997, Chancellor Gordon Brown applied a one-off tax on recently privatised utilities.[16] All of these taxes were intended as 'windfall' taxes on unjustified profits, whereas – as we explain below – the motivation for a one-off wealth tax would be different. Nevertheless, these precedents show that a one-off tax would not be an entirely novel step for the UK.

4.1 Principles

In this section, we evaluate the case for a one-off wealth tax against the five criteria that we set out in Section 3. In applying these criteria, we assume that the design of the tax would follow the recommendations that we set out in Section 4.2.

---

[13] As O'Donovan (2020) notes, one-off wealth taxes have been championed by individuals of diverse intellectual and political backgrounds, from Joseph Schumpeter (1918), Arthur Cecil Pigou (1920), John Maynard Keynes (1940) and Friedrich Hayek (1940), through to the Reform Party incarnation of Donald Trump (Hirschkorn, 1999).

[14] The tax liability was fixed in nominal terms. Consequently, inflation over the repayment period eroded the real value of the instalments. By the start of the 1960s, receipts fell below 1% of GDP, and rapidly declined further through to the end of the 1970s (Bach, 2011).

[15] As the Irish Times editorial reported in 2014: 'few major tax changes have raised more revenue with less public outcry than the Government's private sector pension levy' (Irish Times, 2014).

[16] Formally on 'companies that were privatised by flotation and that face economic regulation' (Chennells, 1997).

4.1.1 Revenue

The base for a potential wealth tax is large. Aggregate net wealth in the UK is £15.1 trillion, around seven times annual national income (Advani, Bangham and Leslie, 2020). Even focusing only on UK resident individuals who each have total assets (minus debts) of at least £500,000 – equivalent to a couple with £1 million in net wealth split equally between them – the aggregate value of wealth in the UK is £9.9 trillion. The sheer scale of wealth as a tax base means that even modest tax rates can raise very large amounts of revenue.

Below we report results from Advani, Hughson and Tarrant (2020), who estimate the revenue that could be generated by a one-off wealth tax at different thresholds and rates. These estimates assume the design that we recommend in Section 4.2.[17] They also assume a 10% 'tax gap' from non-compliance and legal avoidance. It is important to note that for a one-off wealth tax, other behavioural responses are prevented by the tax design.[18] The revenue estimate is also net of administrative costs to HMRC and other government agencies.[19]

To take one example, **a one-off wealth tax of 5% on total wealth (minus mortgage and any other debts) above £500,000 per individual (i.e. £1 million per couple if split equally), payable at 1% per year over five years, would raise at least £260 billion. This estimate incorporates all relevant behavioural responses and administrative costs to government.**[20] On this basis, the tax would be paid by the 16% of UK adults (8.2 million people) whose total wealth after mortgages and other debts exceeds £500,000.

A one-off wealth tax would be paid off over several years, and some of the tax could be deferred until the taxpayer retired.[21] We recommend a standard payment period of five years, so on this basis individuals would pay an annual-equivalent tax rate of 1% over that period. We also recommend that wealth tax attributable to pensions should be payable out of the pension pot. The implications of this are discussed further in Section 4.2.4. Consequently, of the 8.2 million people liable to wealth tax on the above basis, 2.2 million would not have any tax to pay immediately, since the remainder could have their liability paid entirely from their pensions.

> **Example: 5% tax on individual wealth over £500,000, payable at 1% per year for five years**
>
> Anne and Alan have a family home worth £1 million (which they own jointly), and an outstanding mortgage of £200,000. Alan has a pension worth £400,000 and Anne has ISAs worth £150,000. Between them their total wealth is £1.35million.
>
> Alan's wealth is £400,000 of home equity and £400,000 of pension wealth, totalling £800,000. He owes wealth tax of 1% a year on the £300,000 above the £500,000 threshold. His liability is £15,000 in total, but this could all be paid out of his pension if he so chose, so he would have nothing to pay up front (see Section 4.2.4).

[17] Most importantly, this includes a comprehensive tax base covering all assets minus debts. Our modelling also assumes an individual tax unit although, as we explain in Section 4.2.1, it would be possible to allow couples to elect into joint assessment if this was considered fairer.
[18] See further Section 4.1.4.
[19] See further Section 4.3.4.
[20] As we explain in Section 4.1.4, the relevant behavioural responses considered are non-compliance (e.g. innocent errors, carelessness and evasion) and legal avoidance.
[21] See further Section 4.2.4.

Anne's wealth is £400,000 of home equity and £150,000 of ISA savings, totalling £550,000. She owes wealth tax of 1% a year on the £50,000 above the £500,000 threshold. She therefore owes £2,500 in total, payable as £500 per year for five years.

As another example, **a one-off wealth tax of 5% on net wealth above £2 million per individual (i.e. £4 million per couple if split equally), payable at 1% per year over five years, would raise at least £80 billion. This estimate also incorporates all relevant behavioural responses and administrative costs to government**. On this basis, the tax would be paid by the wealthiest 1% of individuals (626,000 people).

Example: 5% tax on individual wealth over £2 million, payable at 1% per year for five years

Richard and Liz jointly own their family home worth £3 million with no outstanding mortgage. They also own a holiday cottage in the Lake District worth £400,000 (in Richard's name) and two flats that they rent out in London worth £300,000 each (in Liz's name). Richard has a pension worth £1 million and Liz has a pension of £200,000. They jointly own stocks and shares totalling £500,000 and cash savings of £300,000. Their total wealth is therefore £6 million.

Richard's wealth is £3.3 million so he owes wealth tax of 5% on £1.3 million, totalling £65,000. Of this, £50,000 can be paid from his pension lump sum when he reaches retirement age (see Section 4.2.4). The remaining £15,000 is paid in instalments of £3,000 per year for five years.

Liz's wealth is £2.7 million so she owes wealth tax of 5% on £700,000, totalling £35,000. Of this, £10,000 can be paid from her pension lump sum when she reaches retirement (see Section 4.2.4). The remaining £25,000 is paid in instalments of £5,000 per year for five years.

Consequently, Richard and Liz need to find £8,000 per year between them to pay the wealth tax on their combined wealth (excluding pensions) of £4.8 million. They will additionally pay a total of £60,000 from their pensions at retirement age (or when they draw their pension if that is sooner).

The above are just two possibilities for a one-off wealth tax. Table 1 shows various other options. The top panel shows the revenue that would be raised from a 5% flat tax above the tax threshold, payable as 1% a year over five years. The lower panel shows a range of possible rates and thresholds which raise approximately £250 billion (before administrative costs). As the threshold rises, the rate must also rise for a fixed revenue target. Alternatively, the rate could be fixed at 5% for these higher thresholds, resulting in less revenue raised.

In this table we also show our estimates of the administrative costs for government: at their highest these are 1% of the tax revenue collected. We show these separately as they are not affected by the tax rate chosen, so this allows the calculation of alternative gross revenue estimates from which the administrative costs can be subtracted. In Section 4.3.4, we also show estimates of the administrative costs for taxpayers, which although not directly relevant for the revenue estimate, is obviously an important consideration for overall administrative efficiency.

TABLE 1: REVENUE ESTIMATES FOR A ONE-OFF WEALTH TAX

Threshold per individual (£)	Rate	Revenue (£bn)	Taxpayers ('000)	Administrative cost to govt (£bn):
Flat tax at 5%				
10000000	5%	43	22	0.6
5000000	5%	53	83	0.6
2000000	5%	81	626	0.7
1000000	5%	147	3,004	1
500000	5%	262	8,246	2
250000	5%	390	15,537	3
Flat tax raising £250bn				
1000000	8.5%	250	3,004	1
500000	4.8%	250	8,246	2
250000	3.2%	250	15,537	3

Notes: These revenue estimates account for 10% of tax revenue being lost to non-compliance.
Source: Advani, Hughson and Tarrant (2020).

In each case, assuming a standard payment period of five years, the annual revenue would be one fifth of the total. Below, we compare the scale of these tax raises to existing annual taxes that would be required to match this revenue over a five-year budget window. Although the tax would be paid by taxpayers over five years, we have confirmed that the full value of a one-off tax would be 'scored' (i.e. accounted for in the Budget red book) in year one, when the liabilities arise.[22]

It is important to emphasise that we are *not* endorsing any particular revenue target, or thresholds or rates. Our examples above are just for illustrative purposes, and clearly different revenue targets could be achieved by adjusting thresholds and rates appropriately. We discuss in Section 4.4 some practical bounds on these thresholds and rates, driven by administrative and liquidity concerns. In Section 4.1.5, we discuss the scale of alternative tax rises that would be required to raise similar amounts of revenue.

4.1.2 Efficiency

In this section we evaluate how a one-off wealth tax performs on three aspects of efficiency. The first is the economic concept of efficiency, which reflects the concern that taxes can distort people's behaviour, leading to 'deadweight loss'. Second, we consider other impacts arising from what economists call the 'income effect', which is that taxes reduce the amount that individuals have available to spend or invest for themselves. Third, we address concerns about 'administrative efficiency', in other words the proportion of tax revenue that is spent collecting the tax, and any additional administrative costs imposed on taxpayers.

[22] As tax flows are recorded by ONS when claims arise (see Eurostat (2013) European System of Accounts (ESA) 2010, 1.101), the full amount of tax would be recorded in year 1 as a capital tax (D.91on the UK National Accounts), as per ESA 2010, 4.80. This would be balanced out (using F.8 transactions in the financial account) to reflect the actual flow of receipts. This understanding has been confirmed via correspondence with the ONS.

Economic efficiency

Most taxes distort behaviour: they disincentivise people from doing whatever is taxed. While this is desirable for a small number of taxes (carbon taxes, 'sin' taxes on alcohol and tobacco, fuel taxes), in general these 'behavioural responses' make people worse off while also reducing revenue raised. For example, income tax and NICs disincentivise work, capital taxes such as CGT and IHT disincentivise savings and investment, corporation tax disincentivises profit-making activities by companies, VAT disincentivises consumption. The responsiveness of taxpayers to these disincentives is sometimes uncertain and can be highly contested, but there is no doubt that some distortion is inevitable. Economists call these 'inefficiencies'.

By contrast, any 'one-off' tax that is levied by reference to an assessment date in the past is, in theory at least, perfectly efficient: it has no disincentive effects. [23] Because the tax is based on things that have already occurred and is unaffected by anything that happens in the future, individuals do not have any incentive to change their behaviours to try to reduce the amount of tax payable. This means there is no loss in welfare from people changing their choices to try to reduce the tax they owe. For this reason, economists conclude that **a (well-designed) one-off wealth tax is the most economically efficient form of taxation possible** (Adam and Miller, 2020)**.**

However, this theoretical insight depends on the fulfilment of two key conditions:

First, **the tax must be *credibly* one-off** – individuals need to behave as though such a tax would not occur again. Otherwise, the tax would distort *future* behaviour in anticipation of it being repeated. This explains why, historically, one-off taxes have typically been used after major crises, providing a compelling rationale for their exceptional nature.[24] A government may seek to reassure taxpayers that a tax is one-off by highlighting the particular circumstances that led to its creation. In the current context, for example, one might call it a 'COVID recovery tax', which would underscore its link to the recovery from the pandemic. As O'Donovan (2020) argues:

> …if the circumstances that justify a one-off wealth tax are clearly one-off in nature, then it would be irrational to expect the policy to be repeated in ordinary times. Surveys of post-war capital levies highlight no significant issues with the credibility of government claims that such levies were one-offs, not least because it was manifestly obvious to taxpayers that these charges were related to the extraordinary costs of conflict.

For a one-off tax to lose its efficiency, people would need to be quite confident that it was going to be repeated even though no repeat tax had been announced. This is because it is only actual changes in *behaviours*, such as saving less, consuming more, gifting wealth, or emigrating that affect economic efficiency. Vague speculation or mistrust about the likelihood of repetition is not itself enough, unless people actually act upon it.[25] It is also worth noting that any government could raise a one-off tax whether or not the country had prior experience of one, so the impact of a one-off tax on credibility depends on how much it *increases* avoidance

[23] The tax does have 'income effects': clearly those who are taxed have less money than previously, and this may also affect their behaviour. These are discussed more in the next subsection.

[24] Although there have been some examples of wealth taxes that were initially announced as 'temporary' that were extended beyond what was initially planned: for example, Spain's temporary re-introduction of a wealth tax following the financial crisis, which is still in force.

[25] For example, as O'Donovan (2020) documents, Ireland introduced a one-off tax on private pension wealth after the financial crisis and 'despite the pension industry's concerns, there does not appear to be any conclusive evidence that the rate of retirement saving fell [in Ireland] as a result of the charge'.

behaviours compared with the baseline belief that such a tax could be implemented if future circumstances demanded it.

The second condition for efficiency is that **the tax must not be 'forestalled'**. Forestalling involves steps taken by (potential) taxpayers in anticipation of a tax being introduced. It is most likely to occur where the policy intention is announced long before the date when the tax actually becomes effective. There are numerous examples in the recent past: ahead of the changes to CGT rates in 2008; the increase in the top rate of income tax to 50p in 2010;[26] and the increase in tax rates on dividends in 2016. In each case, the policy was trialled or announced several months ahead of time, and individuals responded to this early warning by bringing forward payments, receipts of income or transactions before the measure came into effect. However, such extensive forestalling was not inevitable: it was entirely predictable and could easily have been prevented, mostly by the simple expedient of avoiding delay between announcement and implementation.

Under a one-off wealth tax, the 'assessment date' should be set on or shortly before the date when the policy is announced, rather than pre-announcing it. If the government did this, the only scope for forestalling would be where individuals nevertheless anticipated the policy *and* acted on this anticipation by taking pre-emptive steps. In Section 4.3, we discuss what kinds of steps people might try to take if they anticipated a one-off wealth tax, and how these behaviours could be mitigated through policy design, particularly in relation to emigration. Again, vague speculation about a one-off wealth tax is not in itself enough to cause problems. People would need to believe that the tax was coming with enough certainty to make it worth their while to take costly steps up front, even without knowing exactly what they were trying to avoid. Unless there was a concrete 'leak' about the policy prior to announcement, we doubt that forestalling would be widespread enough to affect efficiency or revenue to any significant degree. However, if the assessment date was set sometime after the policy announcement, forestalling would be a major problem.

Finally, it is important to note that in principle any credibly one-off tax is economically efficient, whether levied on total wealth, only some forms of wealth (e.g. pensions or financial wealth), previous income, previous profits or previous expenditure. However, there are important reasons of fairness that make wealth a more appropriate tax base for a one-off tax than any of these alternatives. As we explain further below, unlike past income, profits or other flows, which might not be a good guide to the economic resources that a person will receive in the future, their stock of wealth provides a better indication of their *current* 'ability to pay', despite being determined by reference to an assessment date that is in the past.

Income effect

While economic efficiency means that a one-off wealth tax minimises *disincentive* effects on behaviour, this does *not* mean that the tax is without any prospective effects at all. A pound paid in tax is a pound that cannot be spent or invested by the taxpayer themselves. Economists call this the 'income effect'.[27] All taxes have this effect: it is a universal inescapable consequence of taxation. But that does not mean that a one-off wealth tax is economically inefficient. Although the tax imposes a cost on those who pay it by reducing their private resources, under a one-off

[26] Many top rate taxpayers responded to the pre-announcement by bringing forward dividend payments. The same then happened in reverse (through deferred payments) when the tax rate was reduced again three years later. This partly explains why the 50p tax rate raised much less revenue than was originally forecast (Browne and Phillips, 2017).

[27] This label typically refers to the context of taxes on income. Here we are more precisely considering a 'wealth effect', but the underlying idea concerning a reduction in private resources is the same.

wealth tax this cost is exactly matched by an increase in public resources.[28] There is no additional 'deadweight loss' incurred from distortions. In other words, a one-off wealth tax achieves an efficient transfer of resource from the private to the public sector, without the additional costs that are usually associated with raising taxes: the distortion of individuals' choices.

Although the aggregate income effect under a one-off wealth tax is no different than any other tax that raises the same amount of revenue, the tax clearly differs from other tax rises in the *distribution* of that effect, or in other words, *who* has less money available. To reject a one-off wealth tax on this basis we would therefore need to think that pound-for-pound, the wealthy spend or invest any additional money more effectively than those who would pay under alternative tax rises, such as ordinary workers and consumers. Although the wealthy are more likely to hold business interests and a one-off wealth tax may reduce the amount available for them to invest, other tax rises would adversely affect businesses in other ways, for example by reducing consumer demand or increasing the cost of employing people.

Administrative efficiency

Another aspect of efficiency is the administrative cost for both government agencies (including HMRC) and taxpayers. We explain and quantify these costs in detail in Section 4.3.4, relying on modelling by Advani, Hughson and Tarrant (2020). As can be seen in Table 5, which compares the revenue raised and administration costs, **administrative costs are not excessive for a one-off wealth tax. They can be kept to levels that are comparable with other existing UK taxes and are small in proportion to the revenues raised.** As we explain in Section 5.2.5, the position in relation to an annual wealth tax is more finely balanced, where administrative costs for both taxpayer and HMRC place a greater constraint on the thresholds and rates that are viable.

4.1.3 Fairness

Ability to pay

The COVID-19 pandemic has had a huge impact on people's lives and well-being. It has also had economic impacts that are without parallel. At the time of writing this report, GDP is estimated to have fallen by 11% over the course of 2020, the largest drop in three centuries (OBR, 2020). The government budget deficit for 2020–21 is projected to be almost £400 billion, 19% of GDP and more than twice the peak of the financial crisis. As stated in our introduction, we do not take any position on the macroeconomic question of when, if at all, is the right time to respond with tax rises. But at some point, if tax rises become necessary, the government will have to choose: what is the fairest way to share the costs of this crisis?

Wealth provides a measure of a person's ability to pay taxes. To be sure, it is not the only indicator available. In our current tax system, income and consumption are more common benchmarks. This is reflected in the fact that over two-thirds of all tax revenue comes from income tax, NICs, and VAT. But income and consumption both measure 'flows' over time. The trouble with basing a one-off tax by reference to a person's past income or consumption is that these may not provide good indicators of *current* ability to pay, and the tax is much more likely to be regarded as retrospective.

[28] Except to the extent of administrative costs on taxpayers and government: these are discussed in detail in Section 4.3.4.

A one-off tax based on a person's current wealth is not only efficient but also provides the most recent snapshot we have available on their ability to pay. As at the assessment date, people with more wealth have more of something that is valuable: **wealth can be used to buy things, provide security, and provide opportunities in the future for the owner and their families**. It is in these respects one can say that those with more wealth have the 'broadest shoulders' and are best able to afford an additional contribution to society during times of crisis. None of this depends on where their wealth came from and is entirely prospective in outlook.

Subsequent changes in wealth

One might reasonably worry that even though wealth provides the best available indicator of current ability to pay on the assessment date itself, it may still become 'out of date' before the tax has been paid off in full. What if someone's wealth falls dramatically after the assessment date leaving them to make payments that they can no longer afford? We agree that there could be a risk of unfairness here, and that under an actually implemented one-off wealth tax there would inevitably be some hard cases. We have considered carefully whether there are ways of addressing this concern.

The main difficulty is that it is in the nature of a *one-off* wealth tax that there should be no reassessment after the initial assessment date. This feature is what gives a one-off wealth tax its distinctive advantage in terms of efficiency. As soon as a 'one-off' wealth tax starts to incorporate a broad mechanism for reassessment, it effectively becomes a recurrent wealth tax (albeit limited in the length of time it lasts), and the principles that we discuss in Section 5.1 (on annual wealth taxes) apply instead. For this reason, our inclination is to resist suggestions that an individual's initial assessment should be capable of revision on account of anything but the most dramatic changes in fortune.

Nevertheless, if some flexibility is necessary to deal fairly with the hardest cases, **we think that it would be possible to design a relief that would protect individuals who suffered a drastic subsequent fall in their wealth for reasons outside their control.** Such a relief would need to be very carefully and narrowly drafted to deal with real hardship cases as opposed to people who have deliberately devalued their wealth by use of debt and gifts, or simply consumed their wealth since the assessment date. In other words, it should be restricted to exceptional and unforeseeable circumstances only. It should also require a revaluation of all of the individual's assets together, to prevent any cherry-picking.

The difficulties arising from subsequent changes in circumstance become harder to manage the longer the period over which the tax is paid. In Section 4.2.4, we recommend a 'standard repayment period' of five years for a one-off wealth tax. This is motivated in response to concerns about liquidity if the tax was required to be paid in one go or over a shorter period of time. However, if the standard payment period is extended too long, there is an increased likelihood of pressure being placed on government to write off the last outstanding instalments, especially for those whose circumstances had changed – which would be unfair to those taxpayers who have not taken advantage of this facility. The length of payment period must therefore be considered carefully with this trade-off in mind.

The gap between rich and poor

Rowlingson, Sood and Tu (2020) found that the public's top two arguments in favour of a wealth tax – based on a nationally-representative sample of UK adults – was that 'the gap between rich and poor is too large' and 'the rich have got richer in recent years'. These responses reflect a concern with wealth inequality. We do not take any position on whether tax policy should be used actively to reduce inequality through the direct redistribution of wealth. However, this argument is not needed to support a one-off wealth tax, especially following the COVID-19 crisis. Instead, **a one-off wealth tax can be justified as part of a package to prevent the rise in wealth inequality that is likely to result from other post-pandemic fiscal and monetary policies.**

A one-off wealth tax could play an offsetting role in two main respects:

First, the economic impact of COVID-19 is likely to result in low interest rates and continued quantitative easing (i.e. increasing the money supply). These are necessary monetary policy responses to the crisis from a macroeconomic perspective, but they also have distributional consequences. Lower interest rates lead to increases in asset prices, as were seen after the global financial crisis (Mulheirn, 2020). In other words, although essential to support the economy, loose monetary policy will have the side-effect of significantly benefiting those who already own assets (i.e. the wealthy). A one-off wealth tax could help to pre-emptively offset this impact on wealth inequality.[29]

Second, with or without a one-off wealth tax, the government may feel that it needs to raise taxes on income and consumption. However, tax rises on ordinary workers and consumers would fall more heavily on those with little or no wealth, whilst leaving the wealthiest relatively less taxed. Such policies therefore risk increasing wealth inequality compared with the status quo, unless countervailing steps are taken. Plainly, a one-off wealth tax cannot offset permanent structural changes to other taxes. Nevertheless, in the short run, a one-off wealth tax could help to offset the rise in wealth inequality that is implied by other forms of fiscal tightening.

The extent to which a one-off wealth tax performs a function of reducing or limiting inequality depends primarily on its rate structure – this is a political choice on which we make no recommendations. However, just by way of illustration, Table 2 shows three options for raising £250 billion, each of which varies in progressivity. We take no position as to which of these rate structures is preferable, if any. We merely note that many combinations of rates and thresholds are possible (including others not shown below), each with different distributional effects and amounts of revenue raised.

Table 3 (taken from Advani, Hughson and Tarrant, 2020) shows examples of the amount different types of people would have to pay in each of these scenarios.

[29] Another offsetting option would be through the taxation of capital gains. This would have the advantage of targeting gains directly, but it has the downside of affecting prospective investment incentives, which a one-off wealth tax does not.

TABLE 2: THREE PROGRESSIVE TAX RATE STRUCTURES THAT WOULD RAISE £250BN

Threshold per individual (£)	Rate	Annualised rate	Revenue (£bn)	Taxpayers ('000)	Administrative cost to govt (£bn)
500,000	0%	0.0%			
1,000,000	4%	0.8%			
2,000,000	8%	1.6%	250	3,004	1
5,000,000	12%	2.4%			
10,000,000	15%	3.0%			
500,000	3%	0.6%			
1,000,000	5%	1.0%			
2,000,000	6%	1.2%	250	8,246	2
5,000,000	7%	1.4%			
10,000,000	8%	1.6%			
500,000	4.8%	0.96%			
1,000,000	4.8%	0.96%			
2,000,000	4.8%	0.96%	250	8,246	2
5,000,000	4.8%	0.96%			
10,000,000	4.8%	0.96%			

Notes: These revenue estimates account for 10% of tax revenue being lost to non-compliance.
Source: Advani, Hughson and Tarrant (2020).

TABLE 3: ANNUAL PAYMENTS UNDER THESE PROGRESSIVE TAX STRUCTURES

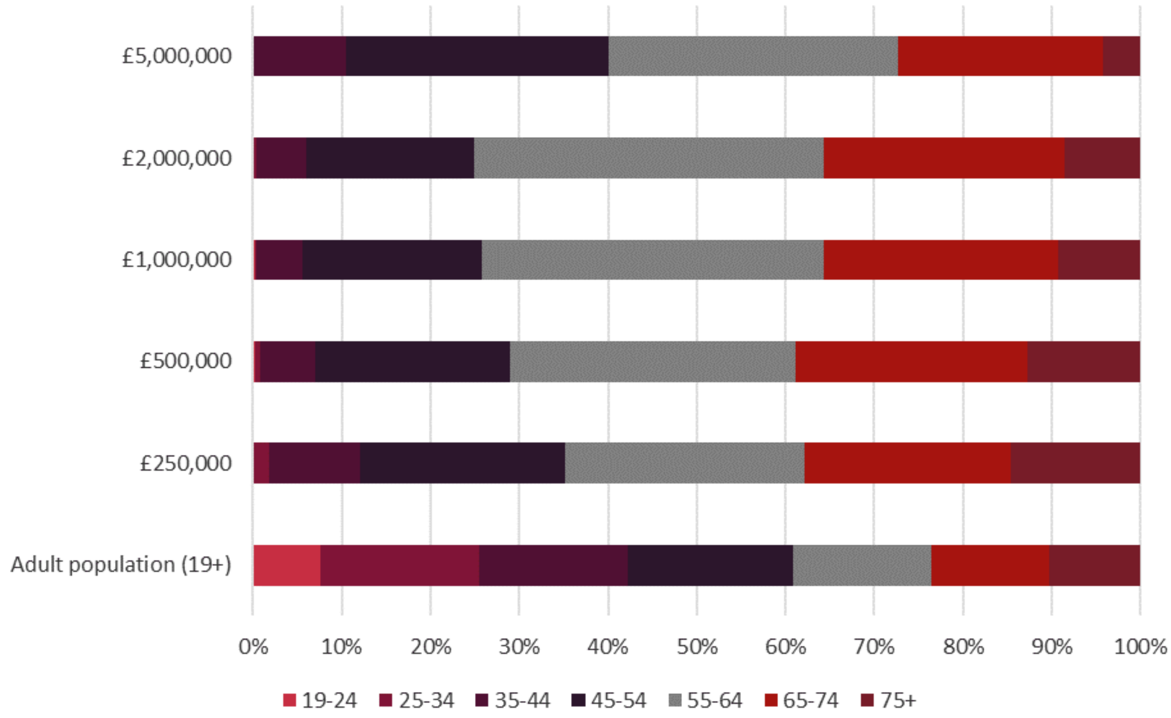
Threshold per individual (£)	Rate	Annualised rate	Individual net wealth (£)				
			750,000	1,500,000	3,000,000	7,500,000	15,000,000
Progressive taxes generating £250bn							
500,000	0%	0.0%					
1,000,000	4%	0.8%					
2,000,000	8%	1.6%		4,000	24,000	116,000	326,000
5,000,000	12%	2.4%					
10,000,000	15%	3.0%					
500,000	3%	0.6%					
1,000,000	5%	1.0%					
2,000,000	6%	1.2%	1,500	8,000	25,000	84,000	199,000
5,000,000	7%	1.4%					
10,000,000	8%	1.6%					
500,000	4.8%	0.96%					
1,000,000	4.8%	0.96%					
2,000,000	4.8%	0.96%	2,400	9,600	24,000	67,200	139,200
5,000,000	4.8%	0.96%					
10,000,000	4.8%	0.96%					
Number of individuals within 10% of this net wealth ('000)			813	323	55	6	4

Notes: Tax payments (per year) of individuals with given net wealth under each tax regime.
Source: Advani, Hughson and Tarrant (2020).

The gap between old and young

A one-off wealth tax is calibrated by reference to each person's current wealth at the assessment date, which of course is a snapshot of the fluctuations in their wealth that occur over their lifecycle. An individual's wealth tends to start low in childhood, before building up over working-age, and then tending to stabilise or deplete again through retirement (Advani, Bangham and Leslie, 2020).[30] The consequence of these lifecycle effects is that a one-off wealth tax will tend to fall relatively more heavily on the cohort who are at or around retirement age when it occurs (Adam and Miller, 2020).

FIGURE 4: AGE DISTRIBUTION OF TAXPAYERS FOR DIFFERENT EXEMPTION THRESHOLDS



Source: Advani, Hughson and Tarrant (2020).

Figure 4 shows that 39% of individuals with wealth above a threshold of £500,000 are over 65, despite over-65s making up only 23% of the adult population. By contrast, those aged 35–44 make up 17% of the population, but only 6% of those with wealth over £500,000. In other words, retirees would be overrepresented in the taxpayer population at a threshold of £500,000, and individuals of working-age would be underrepresented. Similar patterns can be observed from the age distribution of taxpayers above thresholds of £1 million or £2 million.

Whether or not this is a desirable feature of a one-off wealth tax depends on one's view of issues of intergenerational fairness. As Adam and Miller (2020) note:

> Some would argue that the generation currently around retirement age has been lucky, having benefited (as a group – not necessarily individually) from both benign economic developments (such as rapid rises in the value of their homes, generous occupational pension provision and decades of healthy wage growth) and generous government

[30] Although these lifecycle patterns of wealth accumulation and decumulation are much less prevalent at very high levels of wealth.

policies (such as free university tuition, big tax breaks for pension saving and capital gains on main homes, and the 'triple lock' on the state pension); and that it is therefore fair to ask that generation to contribute more.

Although Adam and Miller (2020) do not endorse this view themselves, they also point out that such claims about intergenerational (un)fairness are not required where a one-off wealth tax is accompanied by tax rises on future sources of wealth. That is because these taxes will be paid primarily by future generations and not by the current old. Consequently, **a one-off wealth tax alongside increases in income tax would raise money more equally across generations than income tax rises alone**. Moreover, as already noted above, a one-off wealth tax would tend to offset the increases in intergenerational inequality that are likely to arise from concurrent monetary policy responses to the crisis.

Is a one-off wealth tax unfair?

We have also considered three other fairness arguments that could be made against a one-off wealth tax, but ultimately, we do not find these convincing.

First, **a one-off wealth tax is not intended to 'punish' the wealthy** or otherwise degrade their contribution to society. The tax is effectively blind to the source of wealth: it does not single out a particular group, whether they be business owners or landowners, self-made entrepreneurs or those with inherited wealth, and so on. For some people, this might be regarded as unfair for another reason: they might prefer that the tax system targeted the 'undeserving' wealthy and spared the 'wealth creators'. However, we think that it is an advantage of a one-off wealth tax that it does not attempt to draw any such distinctions. As we have explained above, the tax is focused entirely on an individual's ability to pay, rather than any judgement about how they have acquired their wealth.

Second, some people might instinctively regard a wealth tax as 'confiscatory'. Whilst most people do not agree that 'all tax is theft',[31] they might still be uneasy about a tax that is levied purely because a person is the owner of wealth. Whilst we cannot allay these concerns entirely, we emphasise two points. First, as others have observed: 'it no more follows that a tax on wealth has to be paid from wealth than that a beer tax has to be paid from beer'.[32] In other words, **a one-off wealth tax does not involve the government 'confiscating' specific items of property**: it is levied *by reference to* wealth, not *on* wealth itself. Second, it is reasonable to be concerned that in practice, if an individual does not have enough income to pay the tax, they might be required to sell some of their assets. We take this concern very seriously and address it in detail in Section 4.2.4.

Third, **we do not think that a one-off wealth tax would be 'retrospective' or contrary to individuals' legitimate expectations**,[33] even if – as we recommend – the assessment date was set on or shortly before the date when the policy was announced. For one thing, it is hard to know what legitimate expectations anyone could form about public policy in circumstances of the

---

[31] This view is attributed to right-libertarian Murray Rothbard, who argued, 'Taxation is theft, purely and simply even though it is theft on a grand and colossal scale which no acknowledged criminals could hope to match. It is a compulsory seizure of the property of the State's inhabitants, or subjects' (Rothbard, 1982).
[32] Sandford, Willis and Ironside (1975, p.4). For more detailed discussion of the issues addressed in this section, see Loutzenhiser and Mann (2020).
[33] Here we are addressing this concern from a political and moral perspective, not a legal one. If a one-off wealth tax was passed through an effective Act of Parliament, there is no question of the courts striking it down on account of retrospectivity or any other grounds.

largest fall in GDP for three hundred years. But more generally, the concept of retrospectivity in tax policymaking is not black and white. Many tax policies that are formally only prospective in their effect actually have the practical consequence of unsettling individuals' prior expectations, such that if they had known in advance, they might have acted differently.

To give a few examples, consider first the not unlikely alternative of adding NICs to pension withdrawals. Formally this only applies to new withdrawals, but it would nevertheless mean that the purchasing-power of existing pension wealth is reduced. Or consider an increase in the rate of CGT. Although this increase would only apply to assets sold after the date of effectiveness, the increased rate would nevertheless apply to the gains that accrued on that asset long before the tax was announced. Finally, consider a decision to impose IHT on assets that were previously exempt, or otherwise change the IHT treatment on estates. Although only applying to deaths after the date of effectiveness, nevertheless such a change would also impact earlier behaviour.

What these examples illustrate is that lots of tax reforms have effects that may in some way disrupt people's prior plans and expectations. The argument that 'if I had known this tax was coming, I wouldn't have saved/invested/worked/holidayed as much' does not only apply to a one-off wealth tax; it can be applied to almost any tax change. Moreover, public policy must always strike a balance between giving the public fair warning and achieving efficacy. There is plenty of evidence that pre-announcing tax reforms can sometimes be severely detrimental to their effectiveness.[34] In the following section, we explain why, in the case of a one-off wealth tax, the balance is strongly in favour of ensuring that revenue is not lost through anticipatory avoidance.

4.1.4 Avoidance

Defining what we mean by avoidance

Lawyers and economists typically mean very different things by 'avoidance'. Politicians and the general public may mean something different again. Consequently, it is important that we define how we use the term in this report.[35] We draw a distinction between 'legal avoidance'; attempts to avoid tax, or benefit from the tax system in a way Parliament didn't intend (what lawyers commonly call 'tax avoidance') and 'economic avoidance'; changes in behaviour to avoid paying a tax either through legitimate or illegitimate means (what economists commonly call 'tax avoidance').

Lawyers tend to be concerned with the distinction between 'avoidance' and 'mitigation'. In the leading case of *Willoughby*,[36] Lord Nolan summarised that tax avoidance 'is a course of action designed to conflict with or defeat the evident intention of Parliament.' By contrast, tax mitigation occurs where 'the taxpayer takes advantage of a fiscally attractive option afforded to him by the tax legislation and genuinely suffers the economic consequences that Parliament

---

[34] For example, the pre-announcement of the 50p 'additional rate' for income tax in April 2009: see further Browne and Phillips, 2017.

[35] For a more detailed discussion with a similar aim, see Devereaux, Freedman and Vella (2012).

[36] *IRC v Willoughby* [1997] 4 All ER 65 (HL). The origin of the distinction between avoidance and mitigation lies in *IRC v Challenge Corporation Ltd* [1986] STC 548 and *Ensign Tankers (Leasing) Ltd v Stokes* [1992] STC 226 which were both cited in *Willoughby*. Lord Templeman gave the following examples: 'income tax is avoided … when the taxpayer reduces his liability to tax without involving him in the loss or expenditure which entitled him to that reduction.' He explains mitigation thus: 'When a taxpayer makes a settlement, he deprives himself of the capital which is a source of income and thereby reduces his income. If the settlement is irrevocable and satisfies certain other conditions the reduction in income reduces the assessable income of the taxpayer.'

intended'.[37] This is a sensible distinction to adopt for those who have to implement and advise on the law, given that neither taxpayers nor HMRC nor the courts have the power to set tax policy, which is for Parliament.[38] Many of the technical bodies that regulate tax professionals such as the Chartered Institute of Taxation, the Institute of Chartered Accountants in England and Wales (ICAEW), STEP (which specialises in family inheritance and succession planning) or the Association of Taxation Technicians (ATT) have signed up to a professional conduct code that prohibits giving advice on tax avoidance.[39]

Economists tend to adopt a much broader definition of 'avoidance', which encompasses any behaviour that has the consequence of reducing the tax that would otherwise be paid (Feldstein, 1999). It includes what lawyers think of as 'avoidance', but also includes many other behaviours that are entirely consistent with and often even encouraged by existing legislation (e.g. investing in ISAs). It also encompasses non-compliance, including evasion. This is a sensible definition to adopt for those who are interested in what changes in behaviour are caused by the tax system. Since these changes may occur regardless of what Parliament intended, there is no reason for economists (in this context) to draw the lawyers' distinction between tax avoidance and tax mitigation.

In this report, **we use 'avoidance' (or 'avoid') in the economic sense** to include all behavioural responses to a tax, ranging from tax mitigation right the way through to tax evasion. **When we refer specifically to 'legal avoidance', we mean tax avoidance as defined by the courts** above and not tax mitigation or tax evasion, although this distinction is not always easy to draw.

Risks of avoidance

Under our recommended design, **a one-off wealth tax would be very difficult for individuals to avoid**. In short, this is because – subject to the issue of forestalling which we discuss below – each taxpayer's liability would already be fixed before they had any chance to respond. Most of the usual channels of response therefore do not work. For example, it would be no use giving away assets or spending down wealth after the assessment date, because this would not be effective to reduce wealth on that date. Likewise, under our recommendation for a 'backwards tail' for residence (explained in Section 4.2.1), individuals could not avoid the tax by emigrating after the assessment date, or even shortly before it. This is because an individual's liability to the wealth tax would already be fixed by reference to their residence in the several years preceding the assessment date.

We foresee three ways in which individuals might avoid (in the economic sense) a one-off wealth tax. These are: (1) forestalling; (2) legal avoidance; (3) non-compliance – including innocent error, carelessness and (illegal) evasion. We address measures to prevent non-compliance in Section 4.3, when we discuss the administration of a one-off wealth tax. In Section 4.3, we address measures to prevent (and unwind if necessary) forestalling, as part of our discussion of how to deliver a one-off wealth tax. This leaves legal avoidance i.e. 'a course of action designed to conflict with or defeat the evident intention of Parliament.' It is in the nature of this type of

[37] Citing counsel with approval.
[38] In its 'tax gap' publication, HMRC refers to avoidance as 'bending the rules of the tax system to gain a tax advantage that Parliament never intended', adding 'It involves operating within the letter, but not the spirit, of the law' (HMRC, 2020b).
[39] See Professional Conduct in Relation to Taxation, CIOT, March 2017: 'Members must not create, encourage or promote tax planning arrangements or structures that i) set out to achieve results that are contrary to the clear intention of Parliament in enacting relevant legislation and/or ii) are highly artificial or highly contrived and seek to exploit shortcomings within the relevant legislation'. There is continuing debate about what this covers.

avoidance that it is not foreseen in advance of legislating. However, we can nevertheless say something about its likely extent.

Under an annual wealth tax, the main risks of legal avoidance would be schemes around valuation, fragmentation and debt. All of these issues have counterparts in IHT. For example, individuals might try to give away assets without actually relinquishing control or benefit, or they might generate artificial debts to set off against their other assets. However, for a one-off wealth tax, it is much harder for any of these schemes to be deployed unless the tax was heavily anticipated, again for the simple reason that any steps taken after the assessment date would have no effect on the taxpayer's liability. In other words, legal avoidance under a one-off wealth tax would necessarily occur in the context of forestalling. Consequently, we address it in Section 4.3.

Tax gap estimate

For most taxes, HMRC produces an estimate of 'the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid',[40] known as the 'tax gap' (HMRC, 2020b). Their definition combines several margins of behavioural response, although far from all. In particular, it covers failure to take reasonable care, disputed legal interpretation, legal avoidance, all forms of non-compliance (error, carelessness, and evasion, including the hidden economy), non-payment of liabilities and 'criminal attacks'. Of these, the hidden economy and criminal attacks are not relevant for a wealth tax, but the others would inevitably result in some tax gap compared with theoretical liabilities. This means that the amount of revenue actually collected under a one-off wealth tax would (like all taxes) be somewhat less than the 'static' estimate given by simply applying the tax schedule to the existing tax base.

Our revenue estimates for a one-off wealth tax above are expressed after accounting for the likely tax gap. The basis for this tax gap adjustment is explained below. It incorporates all of the margins of response that HMRC includes in its tax gap estimates, as listed above. In turn, this includes two out of the three margins of (economic) avoidance that we identify as risks for a one-off wealth tax i.e. legal avoidance and non-compliance. We do not additionally incorporate an estimate specifically for forestalling. This is because the extent of forestalling depends very largely on the process for delivery of the tax. If the tax was delivered as we have recommended, the likely magnitude of forestalling is very low and would make almost no difference to our revenue estimates.[41] If the policy was pre-announced, then obviously the tax loss from forestalling could be much larger.

We derive our estimate of the tax gap from Troup, Barnett and Bullock (2020), who conclude that the tax gap for an *annual* wealth tax is likely to be around 10%. We think that the tax gap for a one-off wealth tax would likely be lower than this for two main reasons. First, as we explained above, legal avoidance would be more difficult. Second, given the greater tax at stake per assessment, HMRC could reasonably invest more resources in seeking to reduce losses through taxpayer error and carelessness. Despite this, we do not make any reduction to Troup, Barnett and Bullock's estimate for an annual wealth tax, instead applying directly their figure of 10% to a one-off wealth tax. For context, this is more than HMRC's current estimated tax gap

[40] In turn, 'The "theoretical tax liability" represents the tax that would be paid if all individuals, businesses and companies complied with both the letter of the law and our interpretation of Parliament's intention in setting law (referred to as the spirit of the law)'. (HMRC, 2020b).

[41] Concretely, by this we mean less than 1% of revenues. On revenue of £260 billion, this would imply a tax loss from forestalling of up to £2.6 billion. To put this in context, HMRC estimates that the entire tax gap for all 'wealthy' customers (meaning all individuals with income >£200,000 or wealth >£2million) across all taxes was £1.7 billion in 2018–19. The tax gap for all other individuals combined was £2.4 billion.

for IHT (8.6%), and around the same as for self-assessment for income tax and CGT by non-business taxpayers (10.5%).

4.1.5 Alternatives

At the level of public policymaking as a whole, there are various alternatives to a one-off wealth tax. Broadly speaking the options open to government are to raise some other tax(es), to cut spending, or to accept higher borrowing. To reiterate, we do not take any position on when (if at all) is the right time to raise taxes. **Our approach applies only at the stage when a government has decided that it wishes to or must raise taxes.** At that point, government faces a choice about which taxes to raise, or introduce. Even here, we cannot compare a one-off wealth tax against all possible alternatives. Instead, below we compare the case for a one-off wealth tax against what we judge to be the most likely alternative tax rises and reforms, based on past experience of the fiscal response to crises, and current debates.

Increasing taxes on income or consumption

Above we estimated that a one-off wealth tax of 4.8% on total wealth (minus mortgage and any other debts) above £500,000 per individual would raise at least £250 billion. This could be paid at just under 1% per year over five years. Although as we noted in Section 4.1.1, all the revenue would be 'scored' (i.e. accounted for in the Budget red book) in year one, for comparison purposes it is reasonable to consider the impact over a full five-year budget window. On this basis, a one-off wealth tax raising £250 billion in total would equate to £50 billion per year over the budget window.

Typical alternatives suggested for raising large amounts of revenue are increases in income tax, NICs or VAT (HM Treasury Select Committee, 2020). Below we consider by how much the rates of each of these taxes would have to be raised to generate additional revenue of £50 billion per year. One might object that this is not quite comparing like-with-like, because a one-off wealth tax is one-off, whereas these other tax rises would be 'permanent'. In structural accounting terms we can see force in this, but as a matter of political reality no tax rise is ever permanent, and the five-year budget window – which happens also to be the length of an electoral cycle – therefore seems a reasonable time-horizon over which to make the comparison.

To draw comparisons, we use estimates for other taxes taken from the HMRC 'Direct effects of illustrative tax changes' publication, informally known as the 'Ready Reckoner' (HMRC, 2020a).[42] HMRC note that: 'The estimates only consider the direct impact of a measure on the tax base to which it is being applied, or to closely related tax bases. Effects on other tax bases and on wider economic factors, such as inflation and investment, are generally excluded'. Our estimates of the revenue from a one-off wealth tax similarly exclude any impact on other tax bases and on wider economic factors. However, as noted above in relation to efficiency, a key advantage of a one-off wealth tax over alternative tax rises is that it has less (theoretically zero) effect on incentives. This is an important economic benefit of a one-off wealth tax over the 'equivalent' tax rises listed below.

[42] We use the version published in May 2020, which notes 'the cost and yield estimates in this publication do not include any adjustments for the economic impact of COVID-19'. In this respect, these estimates are likely to overstate the revenue that could actually be raised from these measures at present. The Wealth and Assets Survey data on which our revenue estimates for a one-off wealth tax are based were collected between 2016 and 2018, since when aggregate UK wealth is likely to have grown, although the impact of COVID-19 remains unclear.

- **Income tax** – obtaining an additional £50 billion a year through income tax alone would require **raising the basic rate of income tax from 20p to 29p in the pound**, or all rates of income tax by more than 6p in the pound, assuming (implausibly) there are no diminishing returns to such large changes. Clearly a rise in income tax rates reduces incentives to engage in work, and other income generating activities.

- **NICs** – obtaining an additional £50 billion a year from NICs would require **raising all rates of NICs by almost 4p, which is effectively an 8p rise for employees**, since both employer and employee NICs would be raised. Excluding employer NICs, all of the remaining rates of NICs need to be raised by almost 8p. Such a reform would be particularly poorly designed. Not only does it create similar disincentives to income tax, but it would also increase various existing distortions and inequities. For example, investment income is not subject to NICs, and nor are individuals over state pension age.

- **VAT** – to obtain an additional £50 billion a year through VAT, again assuming no diminishing returns, requires **raising all VAT rates by 6p**. For the standard rate of VAT this is an increase from 20% to 26%. As with income tax and NICs, a VAT increase affects a much larger proportion of the population than a one-off wealth tax: indeed, it affects almost everyone. Increasing VAT rates would exacerbate existing distortions in relation to zero-rated and exempt goods and services, and would also reduce work incentives (Crossley, Phillips and Wakefield, 2009).

- **Corporation tax** – increases in corporation tax are often popular with the public: in a recent YouGov poll this was the second most supported tax rise (Smith, 2020). However, increases in corporation tax do not raise as much revenue as the alternatives considered thus far. **Raising an additional £50 billion a year through corporation tax alone is unlikely to be feasible**. It would create important distortions: profits of multinationals are relatively mobile (Bilicka, 2019) while smaller businesses would be disincentivised from investment. A more modest 5p increase in corporation tax would allow a VAT rise to be limited to 4p, while still raising £50 billion in total.

Two key points arise from these comparisons. First, **the scale of tax rises required to match the revenue that could realistically be generated by implementing a one-off wealth tax, is extremely large**. Increases of 9p on the basic rate of income tax or 8p (effective) on NICs have no precedent in recent history. An increase of 6p on VAT would exceed the 5p increase implemented (in two steps of 2.5p) as the UK emerged from the global financial crisis; however, the initial (temporary) rate was then 15p rather than the current record rate of 20p. Whilst a one-off wealth tax might seem politically difficult, these alternatives are unlikely to look politically appealing either.

Second, **the distributional and economic consequences of alternative tax increases to any of the 'big three' taxes (income tax, NICs and VAT) compare very poorly with a one-off wealth tax.** Broad-based tax increases on ordinary workers and consumers would tend to drive up wealth inequality even if they were progressive with respect to income and/or expenditure. They are also unfair when compared with a wealth tax, on grounds of current ability to pay towards the crisis. Moreover, increases to any of the 'big three' taxes would be very economically inefficient compared with a one-off wealth tax, dampening incentives to work and spend that are essential to economic prosperity. **There is no equity-efficiency trade off here: the alternatives to a one-off wealth tax are worse on both counts.**

Reforming other taxes on wealth

There are a number of major problems with the UK's current system for taxing wealth. We discuss some of these in Section 5.1.5 and they are explained in detail in Summers (2020). Unsurprisingly, given the dysfunctional state of our existing taxes on wealth – including IHT, CGT and council tax, amongst others – there are several reforms that could raise revenue as well as being fairer, more efficient and harder to avoid than at present. One might think that these (long overdue) reforms are the natural candidates to serve as alternatives to a one-off wealth tax. We certainly agree that seeking revenue from reforming existing taxes on wealth would be vastly preferable to raising any of the 'big three' taxes of income tax (on income from work), NICs or VAT.

However, **a one-off wealth tax is not a substitute for reforming existing taxes on wealth**. It is an exceptional response to a particular crisis. By definition, as a 'one-off' tax, it is not a solution to long-term structural failings. It would be a retrograde step if, having successfully levied a one-off wealth tax, a government concluded that the difficulties of taxing the wealthy fairly and efficiently had been resolved for good. All of the problems of our current tax system would still remain. The purpose of a one-off wealth tax is distinct from those of existing taxes on wealth. As Summers (2020) concludes, it follows that if implemented, a one-off wealth tax should apply on top of any other taxes and would not diminish the case for separate reforms.[43]

4.2 Design

In this section we make recommendations on the key design features for a one-off wealth tax. Our revenue and distributional modelling assume that all of our recommendations are adopted. It is crucial that they are considered together as a package. **Our overarching aim is to keep the design as simple as possible in order to leave minimal scope for avoidance and preserve the horizontal and vertical equity of the tax.** In the past, annual wealth taxes have been plagued by special exemptions and reliefs. We reject the view that these concessions are inevitable reactions to design challenges,[44] and in any event, we conclude that they are not required for a one-off wealth tax. Special pleadings could undermine the coherence of the tax, so it is important to resist these.

We consider five main aspects of design: taxable persons (who is taxed?), taxable assets (what is taxed?), approaches to valuation, liquidity concerns, and administration. Each of these issues is discussed in greater detail in the evidence papers that preceded this report. Here we summarise our recommendations, again emphasising that these reflect our own conclusions and not necessarily those of our contributors. Many of our recommendations apply equally to both one-off and annual wealth taxes: where this is the case, we discuss the issues in this section and do not repeat them later. However, there are a number of specific areas where an annual wealth tax raises important additional design challenges that a one-off tax does not; we discuss these issues separately in Section 5 below.

[43] For further detail on the interactions between a wealth tax (whether one-off or annual) and other existing taxes on wealth, see Summers (2020).

[44] The international evidence suggests that they are more often due to political pressure (Perret 2020; Clark et al 2020).

4.2.1 Taxable persons: who is taxed?

The tax unit

When a wealth tax was last considered in the UK in 1974, the government Green Paper concluded that 'the natural unit of taxation should be the family'.[45] This was on the basis that the family as a whole benefits from wealth in terms of better housing, access to better educational opportunities etc. However, this was at a time when spouses were assessed together for income tax (more precisely, the wife's income was assessed as her husband's) and the social context was rather different. Internationally, there have been a variety of approaches. Wealth taxes in Switzerland, Norway, France and Germany all tax(ed) on the basis of the household rather than the individual, although their exact approaches differ.[46] By contrast, Spain currently levies a wealth tax on an individual basis.

The arguments for and against different approaches to the tax unit are discussed in detail by Chamberlain (2020). Some of these arguments relate specifically to an annual wealth tax – for example effects on incentives to marry or live together – and are therefore considered separately in Section 5. Nevertheless, many of the considerations apply equally under a one-off tax. The main arguments against requiring that couples or households are assessed jointly are as follows:

- It does not invariably follow that the taxable capacity of couples is simply their combined wealth. It may be seen as unfair for one spouse to be subject to higher rates of tax on their wealth because of their partner's wealth – to which they may never have had access or enjoyment.

- If the tax unit is couples, then there would be a strong case for assessing cohabitees together as well as spouses and civil partners. However, this leads to problems of definition and enforcement. The benefits system has not found these easy to address and it may lead to intrusive enquiry into domestic living arrangements.

- Even where the couple's relationship status is clear, taxing them together may involve an invasion of their privacy and independence: a person may not wish to disclose details of their wealth to their partner, which would be the inevitable result if the tax was assessed on them jointly.[47]

- As we note below, if couples are assessed jointly then unless their threshold is doubled, they could face a higher wealth tax bill than if they had remained single.[48] But on the other hand, if the wealth is not in fact shared equally and one person owns substantially less, then doubling the threshold is just a windfall to the richer party.

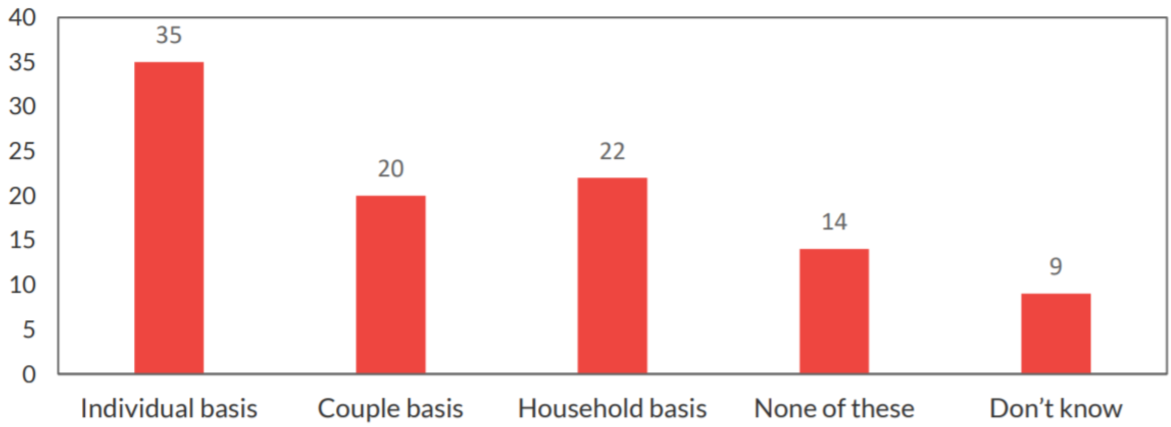
- Even if each member of couple is only liable for their prorated share of the tax bill based on their individual contribution to the couple's total wealth, they are still dependent on the other spouse having filed accurately. This could create complexity regarding responsibility for non-compliance.

[45] In this context 'family' referred to the husband and wife and minor children.
[46] For much more detail on this see Chamberlain (2020), Section 2.
[47] Even each individual reported their wealth separately to HMRC, their partner could still 'back out' the amount of wealth that the other had declared by reference to the tax calculation that applied to them jointly.
[48] In relation to an annual wealth tax, this could act as a disincentive to marry. See further Section 5 below.

On the other hand, if it is mandatory for taxpayers to be assessed on an individual basis, then this could operate unfairly for a couple who happen on the assessment date to own property in one partner's name rather than the other, despite for all practical purposes thinking of this as a joint asset. Ordinarily there would be no strict imperative to ensure that the legal ownership of assets reflected the couple's informal understanding, so a one-off wealth tax could catch people off-guard.[49] This concern would be exacerbated if the tax had a high threshold and/or progressive rate, where any departure from an equal split of assets is more costly in terms of the additional tax paid by couple overall.

The survey conducted by Rowlingson, Sood and Tu (2020) revealed a range of views regarding the fairest approach to the tax unit (Fig.5). 35% favoured an individual basis, whereas a combined 42% favoured assessment on either a couple or household basis. Remarkably there was no overall difference in the preferences of men and women. Those with higher incomes were slightly more likely to favour an individual basis. In the focus groups, the individual basis was seen as the simplest approach, but there was also support for allowing taxpayers to choose for themselves. As one participant put it, 'If you have a husband and wife it should be up to them as a couple or individuals'.

FIGURE 5: PREFERENCE FOR THE TAX UNIT FOR A NEW WEALTH TAX



Source: Rowlingson, Sood and Tu (2020).

We recommend that a one-off wealth tax should be assessed on an individual basis,[50] although we think it would be feasible to allow couples to choose to be taxed together if it was thought that fairness demanded this approach.[51] One option would be to allow individuals to elect to transfer any unused allowance to their partner, in a similar manner to the transfer of the nil rate band under IHT. Alternatively, couples could be allowed to elect into joint assessment so that their assets and allowances were aggregated and then liability prorated between them. In either case, we think that this should function as an election rather than a requirement, to avoid forcing individuals to disclose their personal wealth to their partner.

To illustrate these options, consider a one-off wealth tax at a threshold of £1 million and rate of 5%. Jill owns £1.8 million and Jack owns £200,000. Taxation on an individual basis would result in Jill paying £40,000 in total tax, and Jack nil. If Jack was permitted to transfer his £800,000

[49] As we discuss in Section 5.1, this is less of a concern under an annual wealth tax.
[50] We therefore use individuals as the tax unit for our revenue and distributional modelling.
[51] There are some additional complexities that would arise if taxation on a couple basis was permitted, such as the position on a subsequent divorce where the wealth tax liability had not yet been fully discharged.

unused allowance to Jill, this would result in Jill paying nil tax. In this example, allowing Jill and Jack to aggregate their assets and allowances would similarly result in nil tax for the couple. However, if not all of their wealth had been covered by the allowance and the rate structure was progressive, then aggregation would be more beneficial to the couple than a transferable allowance.

Even if the tax unit is the individual, there are two respects in which the taxpayer's relationships with others should be taken into account for assessment purposes, which we explain below. These two measures are essential under an annual wealth tax to limit ongoing behavioural responses, but even under a one-off wealth tax they are important to prevent the easiest forms of fragmentation that might occur in the context of forestalling (discussed in Section 4.3) if the tax was anticipated.

First, we recommend that any gifts from parents to children who are still minors at the assessment date should be aggregated with the wealth of the donor parent for the purposes of determining liability, even if the tax attributable to that child's share is taken from the child's wealth. This follows other provisions in the existing tax system such as the income tax settlement provisions.[52] Any other wealth of the minor child would be taxed independently with the benefit of their own allowance and at their own personal rates.

Second, we recommend that for valuation purposes, 'related party' rules should apply such that in the case of spouses their property is valued as one combined unit with each spouse owning a proportion of the combined unit. Similar provisions already apply for IHT.[53] For example, assume H owns 40 shares in X Limited, which has an issued share capital of 100 shares. His wife, W, owns 20 shares in the same company. In the absence of the related property provisions both shareholdings would be valued on a minority basis. Valued as related property, their shareholding is aggregated to 60% and they are each treated as having a share in a controlling shareholding.

The residence test

No country could impose a wealth tax on the worldwide wealth of individuals with no connection to the territory. The question then is what is the relevant connection between an individual and the UK that justifies bringing them within the scope of a wealth tax? Chamberlain (2020) considers several possible connecting factors, including residence, domicile and citizenship. We reject domicile on account of its complexity and uncertainty, notwithstanding its current relevance for income tax, CGT and IHT.[54] We also conclude that taxation on the basis of citizenship – whilst adopted in the US – would be inappropriate, especially for a one-off wealth tax, given that some citizens living abroad have only very tenuous continued connections to the UK.

We recommend that a wealth tax, whether one-off or annual, should use residence as its connecting factor. Following the introduction of the Statutory Residence Test in 2013, the concept of residence now has a legislative definition that applies fixed criteria to allow individuals to determine with relative certainty whether or not they will be tax resident in the UK in a given tax year. Broadly, these criteria concern the number of days that the individual was present in the UK and a series of 'tie' tests based whether they have accommodation, work,

[52] See Chamberlain (2020), Design, for further analysis on why this is the preferable option.
[53] IHTA 1984 Section 161.
[54] Domicile is not the same as residence but a more nebulous concept concerning where your long-term home is based. For further discussion see Appendix 2 of Chamberlain (2020).

family etc. in the UK. The criteria therefore flexibly account for a range of factors that indicate a substantial connection to the UK, whilst (unlike domicile)[55] still being tolerably simple to apply.

However, if the only criterion were residence in the particular year when the assessment date for a one-off wealth tax occurred, this could give rise to significant unfairness. A newly arrived immigrant coming to the UK for a temporary work placement for one or two years might feel rather aggrieved to be asked to pay one-off wealth tax on their worldwide assets at the full rate. Equally, those who happened to emigrate just before the tax year in which a one-off wealth tax was imposed would escape liability entirely, even if they had lived in the UK for a long time previously and so still had in this sense a substantial connection to the country.

We recommend that under a one-off wealth tax there should be a 'backwards tail' based on residence in the years preceding the assessment date. For example, if an individual had been UK resident in at least four out of the previous seven tax years preceding the year of assessment, a one-off worldwide wealth tax could still be imposed even if they were not UK resident in the tax year when the assessment date fell. For new arrivals who were resident in the year of assessment but had only been resident for fewer than three years previously, a prorated charge could be adopted, tailing to nil for those who first arrived in the year of assessment.

To illustrate this approach, consider an example involving Chris, who has lived in the UK all his life before leaving the UK two years prior to the year of assessment for a one-off wealth tax. Since Chris was UK resident for five of the previous seven tax years preceding the year of assessment, he is liable for the wealth tax even though he is no longer resident. Note that a similar backward-looking approach already applies under IHT, albeit relying on domicile rather than long-term residence.[56] Now also consider Ajaz, who arrived in the UK two years prior to the year of assessment and has lived continuously in the UK since then. Ajaz would be liable for the one-off wealth tax at a reduced rate, reflecting that he had only recently arrived in the UK.

As well as being a broadly fair way to reflect the strength of a person's connection to the UK at the assessment date,[57] the backwards tail also forecloses any emigration response to a one-off wealth tax. Emigrating after the assessment date, or even some time before it, would have no effect on an individual's liability to the tax. Conversely, a one-off wealth tax would not deter new arrivals after the assessment date since these individuals would not be liable. The approach therefore minimises the scope for those already in the UK to avoid liability, whilst protecting the UK's status as an attractive destination for those who may be thinking of moving after the assessment date.

Trusts and non-residents

In the Appendix to this report, we consider the tax treatment of trusts and non-residents under a one-off wealth tax, drawing on earlier work by Chamberlain (2020). To summarise our conclusions and recommendations:

We recommend that the taxation of trusts under a wealth tax should depend on whether or not the settlor (i.e. the individual who initially put the property into the trust) was resident for

[55] Domicile as a tax connector in the current international age has become increasingly difficult to apply on any practical basis. See Chamberlain (2020), Appendix 2.
[56] An individual who was UK domiciled (not merely deemed domiciled) within the three calendar years prior to death is liable to IHT on their worldwide estate even if at death they were non-UK domiciled under common law having acquired a foreign domicile of choice.
[57] There remains of course some risk unfairness in edge cases, as is inevitable for any connecting factor test that attempts to rely on fixed criteria – which are necessary for certainty.

wealth tax purposes in the tax year of the assessment date. If the settlor was resident, then the trust should be liable to wealth tax on the entire trust fund, regardless of whether the trust is revocable or irrevocable, whether or not the settlor can benefit, and wherever the trustees are resident. The liability attributable to the trust fund would fall primarily on the trustees and only secondarily on the settlor. If the settlor was not resident for wealth tax purposes on the assessment date, the trust would only be liable if a beneficiary was resident, or to the extent that it held UK-sited assets that were chargeable on non-residents.

We recommend that non-resident individuals should typically only be liable to wealth tax on UK real estate, not on any other types of UK-sited asset. However, liability for UK real estate would apply even if owned indirectly via a foreign company (known as 'enveloping'). This follows the approach for IHT on non-domiciles under Schedule A1. In the Appendix, we consider two instances in which targeted rules could perhaps extend liability to non-residents holding other types of UK-sited assets, in particular non-residents who own controlling shareholdings in UK unlisted companies, and non-residents who have a UK resident spouse. We explain why these may be special cases, and why it would not be appropriate to extend liability on non-residents to other UK-sited assets besides residential property.

4.2.2 Taxable assets: what is taxed?

What counts as 'wealth'?

We recommend that 'wealth' should be defined to include all forms of private property, net of all private debts. In legal terms, this definition is already well-established because it follows the meaning of 'property' for IHT and CGT purposes.[58] Broadly, 'property' encompasses any legally enforceable 'right or interest of any description', including tangible property but also any intangible assets such as shares, intellectual property, business goodwill or legal claims. However, the definition excludes various other advantages that an individual may possess, such as their 'human capital' or their entitlement to state benefits. We explain below why we draw the line here.

The concept of 'human capital' refers to the present economic value of an individual's own skills and experience, which will enable them to earn income in the future. Although these attributes are obviously very valuable to their 'owner', they are not 'property' like a car or shareholding or even a contractual right to someone else's performance.[59] The reason why human capital is not 'wealth' for the purposes of a wealth tax is that the 'owner' does not have any legally enforceable right to their own services. Although there may be an economic case for taxing human capital under some conditions, this is outside the scope of a wealth tax.[60]

The definition of 'wealth' for wealth tax purposes also excludes any entitlements to state benefits, although for a subtly different reason. Although such entitlements may be legally enforceable, they can only be enforced in public law through an action against the state in its state capacity. A wealth tax is more narrowly concerned with *private* property i.e. legal rights and interests enforceable as a matter of private law. An individual's entitlement to the state retirement pension is therefore not 'wealth' for wealth tax purposes, because there is no private

[58] Inheritance Tax Act 1984, Section 272; Taxation of Chargeable Gains Act 1992, Section 21.
[59] Such contractual rights do count as 'property' in the form of a chose in action, for IHT and CGT purposes.
[60] For this reason, it is important that when valuing taxable assets such as shares in private businesses or goodwill in unincorporated businesses, the valuation is conducted so as to exclude any element of value that is derived from the owner's own future services. See further Section 4.2.3 below.

legal right to receive this benefit.[61] For the same reason, the present value of one's entitlement to NHS care and other state benefits is also outside the scope of a wealth tax, even though in a general sense these can be very valuable.

For the same reason in reverse, the student loan should not be allowed as a deductible debt for wealth tax purposes. It is not a private debt, but rather a liability to the state in its state capacity. To put the point another way, if student loans were restructured as a graduate tax – which is effectively how they operate anyway – then we obviously would not think of them as a deductible debt for wealth tax purposes, any more than the present value of an individual's future liability to pay income tax on their earnings. This conclusion also fortuitously avoids the need to put a present value on someone's outstanding student loan liability, which would be difficult given the income requirements and write-off criteria.[62]

The case for taxing all assets

We recommend that *all* assets should be included in the tax base for a one-off wealth tax. This includes – for example – main homes, pension rights and businesses, as well as financial assets, second homes and other land, intellectual property, legal claims and other intangibles. As we explain below, the only exemption should be for low-value items (less than £3000 per item) such as personal possessions, for the practical reason that this saves taxpayers from incurring disproportionate administrative costs and hassle in valuing and reporting them. On the other side of the balance sheet, *all* debts should be deductible – including mortgages and consumer loans – subject only to targeted rules to prevent avoidance.

We recognise that there may be public pressure to exempt some types of asset. In their survey on public attitudes to a wealth tax, Rowlingson, Sood and Tu (2020) found very high levels of support for a wealth tax that applied to all assets. However, when they asked participants 'How strongly do you support or oppose taxing each of these different types of wealth?', the least popular assets to include were pensions (net support –59%),[63] savings (net support –49%),[64] and main homes (net support –42%).[65] This compared with strong support for including second homes (+41%)[66] and financial investments (+14%)[67] as part of the tax base.

However, these findings must be viewed in context. As Rowlingson, Sood and Tu noted:

> The opposition to including savings, pensions and the main home in the asset base looks stark. But it is worth noting that the question did not include any thresholds for the tax so people might have thought that even small amounts of savings and relatively modest pension and housing wealth might be included here. This might affect people with relatively modest means and so be a reason to oppose the inclusion of these asset types.

---

[61] Contrast a civil servant's entitlement to their occupational pension, which is 'wealth' for the purposes of a wealth tax. The difference is that a civil servant has a contractual right to their occupational pension, which is a claim against the state in private law rather than public law.
[62] Although it is unlikely that there are many individuals with large outstanding student loans who would be above the threshold for a wealth tax anyway, so if it were necessary then such valuations could feasibly be undertaken given the low volumes.
[63] 'Money people have in occupational or personal pensions'.
[64] 'Savings (e.g. bank and building society accounts and cash ISAs)'.
[65] 'The value of people's main home, minus any outstanding mortgage'.
[66] 'The value of all property owned except the main home, minus any outstanding mortgage'.
[67] 'Financial investments (e.g. stocks, shares and bonds)'.

> Indeed, across all of the focus groups, there was a view that a wealth tax should be paid by the very wealthy, rather than those on more modest means.

Besides public pressure, there may well be lobbying for exemptions of particular assets or groups. The annual wealth taxes in France, Spain and Sweden exempted business assets altogether (provided certain conditions were met), and several other countries have granted tax preferences to businesses in the form of special valuation rules or part-exclusions.[68] Perret (2020) also reports that artwork and antiques are also commonly exempted. Drawing on archival research, Glennerster (2012) lists the organisations that made representations to the UK government for exemptions of farming and heritage assets following the 1974 Green Paper on a wealth tax.

Difficult as it may be, **it is essential that the government resists any calls to exempt specific assets from the tax base of a one-off wealth tax.** There are four key reasons for this:

First, exemptions will result in **horizontal unfairness** between people who are equally wealthy. If, as we argue above, an individual's total wealth provides a useful indicator of their overall 'ability to pay' tax, it is intrinsically unfair if two people with the same ability to pay end up paying different tax bills just because they hold their wealth in different forms i.e. one person holds exempt assets whereas the other does not. We illustrate several instances of horizontal unfairness in relation to specific assets below. Moreover, any exemptions will always result in difficult 'boundary cases', where two types of asset end up receiving different tax treatments despite serving similar purposes or having similar benefits from the perspectives of their owners.

Second, exemptions will also tend to result in **vertical unfairness** if the wealthiest are more likely to own exempt assets.[69] We already see this with IHT, where the average effective tax rate actually declines for estates valued at over £10 million because these are more likely to comprise business and agricultural property, which benefits from 100% tax relief (Office of Tax Simplification (OTS), 2018). Of course, this could work the other way around if main homes and/or pension wealth were exempted, since these assets are relatively more concentrated amongst the moderately wealthy rather than the very top. However, this would be a very bad way of achieving progressivity, because it also generates horizontal inequity as discussed above. If the aim was to make the tax more progressive, this should be done by adjusting the rate structure, not the base.

Third, exemptions will **reduce revenue**. Our revenue modelling assumes that the tax base is comprehensive. If some assets end up being exempted then this revenue would be reduced, unless the tax rate was instead increased on other assets. Table 4 shows the percentage reduction in revenue that would result from excluding different assets, assuming various different thresholds (with a flat rate above the threshold). For example, at a threshold of £500,000 per individual, exempting main homes would reduce the size of the tax base by 30% and exempting pensions would reduce it by 54%.[70] If both were exempted then to obtain the same total revenue, you would need to triple the tax rate on the remaining taxable assets. At a

---

[68] E.g. Germany, Norway, Luxembourg and Ireland: see further Perret (2020).

[69] Waldenström (2018) notes that this process became one of the arguments contributing to the abolition of the Swedish wealth tax in 2006.

[70] These revenue reductions are much larger than the simple share of total wealth that is held in the form of the relevant asset by individuals with total wealth above the threshold. This is because any exemption is effectively the 'top slice' of each individual's total wealth i.e. the asset that 'makes the difference' in how much tax they are liable to pay.

threshold of £2 million per individual, exempting business assets would reduce the tax base by 64%.

TABLE 4: REVENUE LOSS FROM EXEMPTING ASSETS

	Share of revenue lost by excluding…					
Threshold per individual (£)	Main home	All property	Pensions	Business assets	Financial wealth	Physical wealth
250,000	31%	38%	54%	16%	17%	2%
500,000	30%	37%	54%	23%	19%	2%
1,000,000	25%	33%	43%	39%	21%	2%
2,000,000	15%	23%	20%	64%	17%	1%
5,000,000	7%	12%	5%	87%	9%	0%
10,000,000	3%	6%	1%	95%	4%	0%

Source: Advani, Hughson and Tarrant (2020).

Fourth, exemptions can facilitate **avoidance**. This concern is much reduced under a one-off rather than an annual wealth tax,[71] because any activity that occurs after the one-off assessment date cannot legally reduce the taxpayer's liability. In other words, it is no use for individuals to reinvest into exempt assets after the assessment date, because by then their liability will already be fixed. However, if the one-off wealth tax was anticipated and it was known in advance which types of asset were likely to be exempted, then this could result in significant forestalling behaviour. From the perspective of preventing forestalling, it is therefore important that assets are not exempted from a one-off wealth tax, and even more important that if they are to be exempted, this is not known about in advance of the assessment date.

Specific assets

Having set out the broad reasons why a one-off wealth tax should apply to all assets without any exemptions, this section considers four types of asset that have commonly been exempted under annual wealth taxes in other countries – and why they should nevertheless be included if a one-off wealth tax was introduced in the UK. These issues and international examples are discussed in more detail in Chamberlain (2020). We focus here on the 'in-principle' reasons for resisting calls to exempt these assets, leaving aside for now the practical issues of valuation and liquidity, which we deal with separately in the following sections.

First, **pension rights** were excluded from annual wealth taxes in all of the seven countries for which we commissioned detailed evidence for this report.[72] However, Ireland levied a one-off tax on pension funds following the financial crisis (O'Donovan, 2020). The 1974 Green Paper on a UK annual wealth tax did not countenance taxing pensions. However, pension savings then made up only 14% of the UK's aggregate private wealth, compared with over 40% today (Blake and Orszag, 1999; ONS, 2020). Even though pension wealth is more concentrated amongst the 'moderately' wealthy rather than those at the very top – partly due to the annual and lifetime limits, which effectively cap tax-efficient savings in pensions – exempting pensions would substantially reduce the revenue from a one-off wealth tax, even if the tax was set at a relatively high threshold.

[71] On concerns about 'asset-shifting' under an annual wealth tax, see further Section 5.1 below.
[72] These were: France, Germany, India, Italy, Norway, Spain and Switzerland.

We have heard several arguments for why pension wealth should be exempted from a wealth tax, but we do not find any of them convincing. The most common is that the tax system is set up to incentivise pension saving, so it would be inconsistent to include these assets in a wealth tax. However, the government offers many tax incentives for savings and investments, including ISAs, Enterprise Investment Scheme Relief and Business Assets Disposal Relief (formerly 'Entrepreneurs Relief'). The fact that assets qualifying for these schemes have already benefited from a tax preference does not seem to us a compelling case for privileging them further.

Perhaps the next most-cited objection to including pension wealth is that the individual may die before ever drawing their pension (or receiving the full benefit), so it may turn out not to have been any real benefit to them. However, this is true of all assets, apart from main homes and other consumer assets like cars where the owner benefits immediately and continuously. For example, if someone has large savings in a bank account, then there is equally a risk that they may die before spending it, but this does not mean that they never really had that wealth. As Chamberlain (2020) explains, it is also not correct that pension wealth cannot be passed on after death: in fact, not only can it be passed on, but IHT privileges bequests of unused pension pots more than other types of asset.

Other arguments are dealt with elsewhere in this report. One is that taxing pension wealth is retrospective because it undermines people's legitimate expectations about their savings for retirement. As we explain in Section 4.1.3, lots of tax changes can have this effect and most are (rightly) not regarded as unduly retrospective. Another argument is that unlike other types of asset, pension pots are not immediately realisable or saleable by the owner. As we explain in Section 4.2.4, we do think that this merits special rules regarding the timing of tax payments in respect of pension wealth, in order to allay liquidity concerns. However, these measures amount to a deferral of the tax rather than an exemption, which we think is the more proportionate response.

Second, **main homes** have frequently been granted exemptions or preferential treatment under annual wealth taxes abroad. Ireland and India gave a complete exemption. Even Switzerland, which is remarkable for its broadly-based annual wealth tax, nevertheless provides a 40% valuation discount on main residences. In Norway, the discount is 75%. Spain and France also gave substantial allowances. The UK tax system already privileges residential property in several ways, through CGT relief on main homes, the residential nil rate band for IHT, and (by international standards) low rates of council tax on owner-occupied properties, especially the most expensive. These are all good reasons not to privilege housing even more under a wealth tax, but also illustrate the political challenges associated with trying to raise revenue from this source.

One fundamental point to emphasise about a wealth tax compared with other property taxes such as council tax or stamp duty land tax, is that it applies to an individual's *net* wealth rather than the gross asset values. So, in the case of housing, although we recommend that main homes should be included in the tax base, we also envisage that the amount of any outstanding mortgage would be deductible. This means that someone who has only recently bought their home is likely to have very little net wealth attributable to it. Of course, for those who have already nearly paid off their mortgage, the gross value of their property will be closer to their net liability under a wealth tax.

Part of the opposition to including main homes in the tax base for a wealth tax may be that people often do not view their house as an 'asset'. Homes have sentimental value and it can feel distasteful to treat them as if they were just another investment. However, exempting main homes from a wealth tax would lead to serious unfairness for those who are yet to get a foothold on the property ladder, or are saving to move up it. Also, why should someone who chooses to live in a more modest home but has amassed large savings for their retirement, pay more tax than someone who has spent everything they have on their house? We think that these arguments of horizontal unfairness are underappreciated in current debates.

Third, **business assets** are often excluded or subject to favourable valuation regimes in countries with an annual wealth tax. For example, as already noted above, France, Spain and Sweden exempted business assets altogether, provided that certain conditions were met such as requiring that the business was engaged in trading and/or managed by the owner. In the UK, trading businesses and farms have been mostly exempted from both IHT and CGT on death since 1992. In this case, as with the annual wealth taxes abroad, this special treatment has tended be justified on the basis of liquidity concerns, as well as difficulties of valuation. Switzerland is the most notable example where such arguments have successfully been resisted, although valuations are undertaken using a formula rather than strictly on an open market basis.

We discuss in more depth below our approach to valuation and liquidity concerns, including for private businesses. Here we note that the in-principle case for including this form of wealth in the tax base is strong, primarily on grounds of vertical equity since those at the top of the wealth distribution are more likely to hold business assets (Advani, Bangham and Leslie, 2020). The case for inclusion is even stronger under a one-off wealth tax than an annual tax, because if the assessment is in the past and will not be repeated then it does not affect the incentive to invest. We acknowledge that the tax could reduce the funds available for investment by the business owner, assuming that they face a borrowing constraint, but as we emphasised in Section 4.1, this 'income effect' is true of all taxes affecting business owners, including for example NICs and corporation tax.

Fourth, **heritage assets** such as historic houses and works of art have often received special treatment under wealth taxes. The opposition to taxing these assets was one of the defining episodes in the aborted attempt to introduce an annual wealth tax in the UK in 1974. Mandler (1997) reports how the owners of country houses, museums and art galleries mobilised following proposals for the CTT and wealth tax, resulting in a successful campaign in defence of the English country house that attracted one million signatures.[73] Under IHT, there is currently a conditional exemption for national heritage assets provided that the owner undertakes to keep the item in the UK and make it available for the general public to view.

We think there is a tricky balance to be struck here between considerations of horizontal and vertical fairness, and the public interest in preserving heritage assets. We note that it is often argued that such assets come with significant liabilities for upkeep, which is no doubt true but ought also to be reflected in the asset's (reduced) OMV. Whilst we lack detailed data on ownership of heritage assets by total wealth of the owner, it also seems likely that there would be an issue of vertical fairness here, given that such assets are more likely to be held by those who are higher in the total wealth distribution.

Given this range of countervailing considerations, we do not offer a firm recommendation on the exemption status of heritage assets under a one-off wealth tax. At a minimum, any exemption should follow the current IHT rules and be conditional on public access. Whereas the conditions of liability under a one-off wealth tax are typically backwards looking (for example the residence test discussed above), in this particular instance it would seem to make more sense for any exemption to depend on continued public access in future, rather than on past

[73] See further Glennerster (2012).

access. Beyond this, we do not offer any view on the appropriate scope for the exemption, the conditions that should apply, or whether a total (rather than partial) exemption is warranted.

Low-value items

We recommend that a one-off wealth tax should include a standard exemption for low-value items,[74] as a means of reducing the administrative burden on taxpayers, making filing easier, and avoiding unnecessary recourse to professional valuations. Under CGT, there is currently an exemption for the disposal of a single chattel if the disposal proceeds do not exceed £6,000. The exemption that we recommend is broadly modelled on this approach, but with two main differences.

First, we think that a lower threshold of £3,000 per item is appropriate on the basis that a wealth tax applies to the value of the entire asset rather than merely to the gain, so if the single item limit were not reduced its effect would typically be more generous than under CGT. Beyond this, we do not have a firm view on what is the appropriate level of exemption, and £3,000 is not a magic number: it could be set somewhat higher or lower. We merely observe that most household possessions are worth (considerably) less than £3,000 each, so for most people this exemption would mean that their household contents would not need to be reported or valued at all.

Second, for a one-off wealth tax, we would extend the exemption beyond chattels (i.e. tangible movable property) to cover other categories of low-value asset that may be awkward to value. For example, it may be expedient to exempt low-value legal claims, such as a contractual dispute with a builder or travel company. Similarly, the exemption could apply to 'term' life insurance policies with no surrender value. We do not think it is wise to attempt an exhaustive list of categories here, but the overarching objective would be to take low-value items out of tax altogether so that individuals do not need to go to the trouble of valuing them when there is relatively little tax at stake.

The low-value items exemption should also include a rule for 'sets' as currently applied under the CGT chattels exemption.[75] HMRC treat items as a set where they are essentially similar and complimentary, and their value taken together is greater than their total individual value. So, for example, if an individual owned two matching antique chairs worth £2,500 each, these would be treated as a set and hence above the £3,000 low-value item limit. If, despite this rule, there remained some concern about avoidance, there could be an upper limit on the total value of exempt assets (for example, £100,000). However, this is probably unnecessary for a one-off wealth tax since (unless the tax was heavily anticipated) there would be no opportunity for individuals to deliberately split their wealth prior to the assessment date.[76]

Debt

Chamberlain (2020) discusses the deduction of debt under a wealth tax. Under certain conditions, debt could be used for avoidance purposes, but before turning to these it is necessary to dispel a misplaced concern. Although debt is deductible under a wealth tax, taking out more debt will typically not assist someone in reducing their wealth tax bill. That is for the

[74] We also recommend that any equipment for disabled people, used by the owner or their dependents, should be exempt from a wealth tax without an upper limit on value. The definition of qualifying equipment could follow the criteria for VAT relief.
[75] Taxation of Chargeable Gains Act 1992, Section 262.
[76] Even under an annual wealth tax, this would be a rather cumbersome method of fragmentation and we doubt that it would be widespread, especially if the exemption was restricted mainly to tangible property.

simple reason that when someone takes out a debt, they get something in return, and this something will appear on 'asset' side of their balance sheet, leaving no difference in their net position. For example, when a person takes out a mortgage over their house, they immediately incur a large debt (the mortgage) but also obtain a large asset (the proceeds of the loan, typically used to purchase the house).

There are circumstances where the debt might not result in a corresponding entry on the asset side of the balance sheet (for wealth tax purposes), and these are the areas where there is a risk of avoidance. For example, if some assets are exempt from tax, then debt might be taken out against a taxable asset and used to purchase a non-taxable asset, thereby reducing the net liability for tax purposes unless anti-avoidance rules are applied. Similarly, debt might be taken out by non-residents for the purchase of UK properties or used as a way of fragmenting wealth across multiple individuals without transferring assets to them.

However, **the use of debt for avoidance is already familiar in the context of IHT, where there are a series of anti-avoidance provisions that could be adapted for a wealth tax** (see further Chamberlain, 2020). In any case, they are less problematic under a one-off wealth tax than an annual tax, because taking out debt after the one-off assessment date will make no difference to the taxpayer's liability. There is only a concern to the extent that if the announcement of the tax is anticipated, there could be a window of opportunity to use debt as part of a forestalling strategy. Even then, the scope for avoidance would be rather limited provided that the tax base is comprehensive, such that debt cannot be used to fund purchases of exempt assets.

4.2.3 Valuation

It is generally agreed that a wealth tax should be based on the 'open market value' (OMV) of the taxable assets on a specific 'assessment date' (OECD, 2018; Daly and Loutzenhiser, 2020). We discuss each of these definitions in turn, before addressing the practical challenges of valuing assets on the scale required for a one-off wealth tax and outlining our recommended approach.

The assessment date

We do not take any position on when the relevant assessment date should be. However, for a variety of economic, political and administrative reasons, that date is unlikely to be imminent. As we explain in Section 4.3, to prevent forestalling, the assessment date should fall on or shortly before the date when the policy is announced. It should be a single date.[77] Taking an average of values between two dates (for example over a period of one year) would add significant legislative and administrative complexity and it is not obvious that it would be any fairer. In fact, there is a risk that taking a longer period would be less fair, because as we explain in Section 4.1, a key advantage of a one-off wealth tax is that it provides the best available indicator of *current* ability to pay, but this relies on taking the most recent assessment date that is feasible without facilitating forestalling.

One may worry that individuals would seek to manipulate the value of their assets immediately around the chosen assessment date. We think that this concern is unfounded.[78] We discuss some issues of legal avoidance in the context of valuation at the end of this section. In the context of forestalling, we also discuss in Section 4.3 some of the ways in which individuals might

[77] More precisely, it should be a specific time, since the values of some types of asset can obviously fluctuate on a short-term basis.

[78] This issue also does not appear to have presented difficulties in any of the seven countries for which we obtained detailed information for this Commission, although these all concerned annual wealth taxes.

seek to reduce their taxable wealth ahead of the assessment date. We conclude that none of these strategies would be straightforward or widespread. It would be even more difficult legally and effectively to reduce one's taxable wealth before the assessment date and then restore it afterwards, for example by use of options, restrictions, or rescindable contracts. IHT provides good anti-avoidance devices for those who try to reduce the value of their wealth in this way, and a taxpayer engaged in such avoidance could end up with double charges.[79]

After the assessment date, it is in the nature of a one-off wealth tax that there should be no further reassessment. The one-off wealth tax liability is fixed on the assessment date and will not be adjusted to reflect any subsequent changes in the taxpayer's wealth – whether up or down. However, as we noted in Section 4.1, **in cases of significant hardship where the value of an individual's wealth fell drastically after the assessment date for reasons beyond their control, it may be possible to legislate a limited relief.** In order to prevent avoidance and manipulation of values after the assessment date by individuals seeking to qualify for this relief, the measure would need to be very narrowly circumscribed and applicable in cases of significant hardship only.[80]

Open market value

The open market value ('OMV') principle is defined for IHT and CGT purposes as 'the price which the property might reasonably be expected to fetch if sold in the open market'.[81] The application of this principle is refined by existing legislation and case law, which specifies the basis on which the hypothetical sale is assumed to take place.[82] In brief, the sale is assumed to be between a buyer and seller who are willing, prudent and informed, negotiating at arms-length and under no compulsion to transact. Further, the price is not reduced on the ground that the whole property is to be placed on the market at the same time. As Pentelow (2020) notes, these assumptions disregard many of the owner's actual characteristics and circumstances, which means that the OMV for tax purposes can differ from a commercial valuation.

Open market valuations are already undertaken for the purposes of IHT[83], CGT[84], income tax for general earnings[85] and employment-related securities[86], and for ATED[87]. The practice of assigning an OMV in the absence of an actual transaction by the owner (or even comparable transactions in the open market) is therefore already commonplace in the UK personal tax system. **The scope of open market valuations for existing UK taxes collectively already cover all**

[79] See e.g. *Shelford (and another) v HMRC* [2020] UKFTT 53 (TC) where the judge ruled that the effect of failing to complete the contract meant that the house was subject to a restriction on freedom to dispose under IHTA s163 and therefore potentially there were double IHT charges. The judge noted 'this serves as a warning that the implementation of tax avoidance schemes can sometime have the consequence of the participants paying more tax than if they had done nothing: if you play with fire, do not be surprised if your fingers are burnt.'
[80] In particular, it would need to be much narrower than the existing 'falls in value' relief for IHT.
[81] Inheritance Tax Act (IHTA), 1984, Section 160; Taxation of Chargeable Gains Act (TCGA), 1992, Section 272.
[82] For a summary see Pentelow (2020).
[83] Inheritance Tax Act (IHTA), 1984, Section 160.
[84] Taxation of Chargeable Gains Act (TCGA), 1992, Section 272.
[85] Income Tax (earning and pensions) Act (ITEPA), 2003, Section 62, which adopts the 'money's worth' basis of valuation. HMRC's Shares and Assets Valuations Manual (SVM109030) notes that 'experience has shown that the number of cases where money's worth differs from open market value is small and in general you should proceed on the same basis.'
[86] ITEPA, 2003, Section 421.
[87] Finance Act (FA) 2013, Section 98(8).

of the asset types that would be included under a wealth tax,[88] with the possible exception of defined benefit (DB) pensions prior to crystallisation.[89] For example, although shares in private trading businesses are usually given full relief from IHT,[90] their value still needs to be submitted to HMRC.[91] When companies issue equity to employees, or shares are gifted, open market valuations are also required.[92]

Consequently, **it is a serious – albeit common – misapprehension to think that a wealth tax would raise entirely novel contexts for valuation**. Rather, OMV tax valuations are already familiar to UK tax practitioners. The challenge of valuation for a wealth tax arises purely from the *scale* on which these valuations would be required, even for a one-off wealth tax.

The challenge of scale

At a systemic level, the scale of the valuation exercise under a wealth tax depends primarily on the choice of taxable threshold: the lower the threshold, the larger the number ('volume') of taxpayers who would need to undertake valuations.[93] From the perspective of an individual taxpayer, the complexity and potential cost of valuation depends primarily on the composition of their assets. Some assets are straightforward to value, whilst others would likely require professional advice unless the valuation was undertaken direct by a government agency.

Pentelow (2020) classifies three broad types of asset according to the typical complexity of valuation:

- **'Easy-to-value'** assets include financial wealth such as savings, listed shares and other securities, and pension rights.[94]

- **'Mid' complexity** assets include residential and commercial property and most agricultural land.[95]

- **'Hard-to-value'** assets include shares in private companies,[96] intellectual and other intangible property, unincorporated businesses, land that has 'hope value' for development, and thinly traded collectibles such as fine art.[97]

---

[88] The vast majority need to be valued for IHT, specifically, although there may be certain assets that are taxable under a wealth tax that do not need to be valued on death.
[89] Although valuation of DB pensions is currently undertaken for tax purposes in the context of the lifetime allowance for pension savings, this is based on a fixed formula that does not reflect all of the assumptions of OMV.
[90] Although this will not be true if the trading business holds 'excepted assets' or the shares have been owned for less than two years.
[91] Likewise, for lifetime transfers made for less than full consideration, despite Gift Holdover Relief for CGT.
[92] Hold over relief may not always be available e.g. if the gift is to a non-resident or the company holds non-chargeable assets
[93] Table 1 shows the estimated number of taxpayers (assuming a comprehensive tax base) by taxable threshold.
[94] See further Ramm and Eames (2020). For our approach to valuation of DB pensions, see further below.
[95] See further Mackie (2020).
[96] Of these, the most complex and high-value cases are likely to arise when valuing shares in high-tech or other intellectual property rich start-up companies, and/or where there are impending transactions, the shares are a minority interest, or the shares have tailored rights.
[97] See further Tennant (2020); Nelder (2020); Ryan (2020); Clark and Fu (2020).

To investigate the scale of the valuation exercise that would be required under a comprehensive wealth tax (whether annual or one-off), **Advani, Hughson and Tarrant (2020) estimate the likely volume of valuations required under a wealth tax set at different possible thresholds**, using the classification developed by Pentelow (2020).

Their analysis shows that, at lower ranges of wealth, the vast majority of assets by value (95% or more) are either easy-to-value or (under the approach we recommend below) are valued by an external body (e.g. pension or housing assets). Below a threshold of £5 million in total wealth, fewer taxpayers have hard-to-value assets than those who do not. However, while the incidence of ownership of these hard-to-value assets does increase with wealth, it is not the case that only the wealthiest possess these assets – at a threshold of £500,000, over a quarter of taxpayers could be expected to need some professional assistance.

In addition, while almost all taxpayers with wealth above a threshold of £10 million own hard-to-value assets, and these represent the dominant share of their total wealth (67%), the absolute number of individuals with hard-to-value assets is small (around 21,000). At thresholds of £1 million or lower, though, the absolute number of taxpayers captured by the tax is very large, so while the share of taxpayers with hard valuations is smaller at lower thresholds, in aggregate they may number in the millions. As a result, taxpayer costs could be expected to represent a larger proportion of total revenues at a lower threshold than at a higher threshold.

Our approach: general principles

We conclude that there is a very strong case for sticking with the 'Rolls Royce' OMV approach already adopted by the UK tax system and applying this to all asset types. Since the tax rate can be higher under a one-off wealth tax than an equivalent recurring annual tax, and valuation costs mostly do not vary with the tax rate,[98] the cost to taxpayers of valuing their assets will be lower as a proportion of the tax due under a one-off wealth tax. There is consequently no need to resort to the formula approaches or other departures from the OMV principle that have tended to be used for annual wealth taxes, which international experience shows come with several drawbacks.[99]

In our view, **there is no satisfactory alternative to the established OMV standard**, because any simpler approach is liable to lead to unfairness in individual cases. The established OMV approach also provides the benefit of legislative certainty since the relevant statutory definitions and assumptions are already in place, as well as ensuring horizontal equity across different types of asset. Taxpayers may also feel that overall, it is fairer to have an open market rather than formulaic valuation, especially in relation to a one-off wealth tax where the rate is higher and there is only one chance to value the asset. Discrepancies in one year cannot be ironed out in later years.

Our approach is therefore to confront the challenge of delivering open market valuations to a professional standard on a large scale at a low overall cost. We provide recommendations for specific assets below. The general principles are as follows:

- **Proportionate expenses**. We have already recommended that low-value individual items (<£3,000) should be exempt from tax, to save valuation and filing costs.[100] Above this amount, it would still be important to take a realistic view of the tax at stake, and not

[98] It may be that at higher tax rates, taxpayers may demand greater care and precision over valuations which would increase costs, but this is likely to be a second-order effect.
[99] See further Section 5.2.3.
[100] See further Section 4.2.2.

to require or expect professional valuations in circumstances where the valuation is unlikely to be challenged. For this approach to work in practice, HMRC would need to provide much more detailed guidance than at present (for IHT and CGT) on appropriate standards for lay valuation.

- **Funnelling costs upwards**. The aim is for valuations to be undertaken by the most efficient provider, which will tend to require economies of scale. Consequently, the approach is to facilitate or mandate valuations at the highest feasible point in the chain, rather than placing the administrative burden on individual taxpayers to arrange valuations. For example, as we explain below: financial assets including pensions should be valued by institutions; residential property should be valued by the VOA; and shares should be valued by a single professional valuer (or the Shares and Assets Valuation unit) at company level.

- **Time to value**. A key advantage of a one-off wealth tax over an annual version is that it would be acceptable to take longer than one year to provide a final valuation. This could help to ease capacity constraints on professional valuers. For the first year of payment, taxpayers could base valuations for hard-to-value assets on provisional estimates (calculated using rough and ready criteria), with balancing payments in later years once a final value had been agreed. Under the current system, IHT valuations are always several months old, and CGT valuations can be decades old as a result of the 1982 rebasing.[101]

- **Banding**. Under a banded system, the tax charge would depend on assigning the taxpayer to a range based on their total wealth, rather than identifying a precise figure that would be required for an 'ad valorem' (simple percentage) charge. A banded system can still be used to implement any desired rate structure: regressive, flat or progressive. The narrower the individual bands, the closer it is in effect to an ad valorem system. The trade-offs involved in selecting appropriate band widths is discussed further below.

Taken in combination, these principles mean that **the valuation process for a one-off wealth tax would look nothing like the current valuation process for IHT**. In particular, under IHT the responsibility for obtaining valuations almost always rests solely with the taxpayer (the executors of the estate) and taxpayers have the impression (albeit not formalised by HMRC) that professional valuations are mandatory for any asset with an estimated value over £1,500. There is also no banding to the IHT charge so precise values are always required. This approach may (we do not express a view) be justified for a tax levied at 40%, but it would clearly be disproportionate for a one-off wealth tax levied at around 5%.

Our approach: specific assets

The same OMV principle and legislative framework should apply to all asset types. However, this does not preclude different practical approaches to the valuation exercise depending on the type of asset, reflecting the different levels of complexity and uncertainty attending different assets. We suggest some approaches for particular asset types below. Further options are considered by Daly and Loutzenhiser (2020).

[101] For these purposes, it is already necessary to resist the benefit of hindsight (as far as possible) in determining values as at the earlier date. This could work to either the benefit or detriment of the taxpayer (e.g. where the business has declined in profitability and the valuer now thinks that was inevitable or where the land finally gets planning permission and in hindsight that is seen as inevitable.)

For **financial assets**, the information required to ascertain the OMV should already be held by financial institutions. To simplify the valuation process for taxpayers, financial institutions should be statutorily required to provide a statement of the value of each individual's asset portfolio on the assessment date, just as banks are currently required to provide customers with statements of the interest accrued over the tax year. We acknowledge that this would impose costs on financial institutions; however, this would not be out of step with other regulatory requirements, for example regarding the application of the Common Reporting Standard or DAC6. The statement provided by the institution could be sent to the taxpayer and simultaneously to HMRC via third party reporting.[102]

For **pensions**, the process for defined contribution (DC) schemes would be similar to other financial assets. Defined benefit (DB) schemes are more complex, because unlike a DC scheme there is no fund assigned to the individual. However, there are nevertheless several existing purposes for which DB scheme providers must determine the current value of an individual's future pension entitlements.[103] The most appropriate measure for the purposes of a wealth tax would be the Cash Equivalent Transfer Value (CETV), following the guidance that is already published by the Pensions Regulator for the purpose of transfers between pension schemes.[104] This approach has the important benefit of ensuring, so far as possible, horizontal equity between holders of DC and DB pensions.

For **residential property**, valuations should be conducted by the VOA, unless the taxpayer specifically requests to provide their own valuation. Our revenue estimates include the cost of setting up this system, based on discussions with the VOA.[105] At scale, the cost to the VOA would be less than £10 per house, even accounting for the fact the houses to be valued for a wealth tax could be expected to be more valuable and less easily comparable than average. This cost also incorporates the estimated expense of dealing with appeals. The VOA could also provide valuations for commercial property and land, although we have not modelled this in our revenue estimates.

The biggest challenge for valuation under a wealth tax is how to value **private businesses** (including unlisted companies and unincorporated businesses). The first issue is a conceptual one as to what should be valued. As explained in Section 4.2.2, a wealth tax only seeks to tax private property not including human capital. When valuing a business, it would therefore be important to ensure that the value did not take account of the owner's own skills, attributes and personality. This would mean that in the majority of cases where a company functions as a personal services company, and the revenue is remuneration for the owner's own services without more, the value of the business for wealth tax would be nil (apart from assets owned as part of the business, etc.).

This issue is again not an entirely novel one within the UK tax system. When an unincorporated business (sole trader or partnership) incorporates, these tend to be structured as an asset sale at market value. Prior to changes in 2015, the business owner often had a tax-driven incentive to assert a high value for goodwill in the business. In an attempt to counter this, HMRC sought to draw a distinction between personal and business goodwill.[106] Broadly, personal goodwill relates to the owner's own human capital, and is not capable of being transferred. On the other

---

[102] On third party reporting, see further Section 4.3 below.
[103] For a comprehensive overview, see further Ramm and Eames (2020).
[104] https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/transfer-values
[105] The estimate is based on the actual costs of work that was undertaken towards a revaluation exercise (that was never completed) in England in 2005-2007.
[106] Tax Bulletin 76, April 2005, HMRC.

hand, free business goodwill normally derives from a business's brand or good name, reputation, employee expertise, customers, client base and so on, and is capable of being sold for value.[107]

A second issue concerns minority discounts. A valuation of a private company may not properly reflect the value of the individual shareholder's shares. For example, on an open market basis valuing the shares of five shareholders with 20% each will not add up to 100% of the company's value. There will be a significant discount for each minority shareholding. The UK Green Paper proposed aggregating the holdings of all connected persons for valuation purposes only i.e. spouses, siblings, ancestors or lineal descendants or trustees of a trust set up by them. As we discuss in Section 5.2 below, this may be required for an annual wealth tax to stop avoidance but we suggest is not appropriate for a one-off wealth tax unless it is heavily anticipated leading to active forestalling behaviour.

Finally, in terms of the practical process for reporting business valuations, in line with the general principles outlined above, we recommend that valuations should be undertaken once at the level of the business (rather than separately by each shareholder, partner etc.). The valuer could then notify each shareholder of the value of their shareholding whilst still applying minority discounts on an individualised basis. We assume that these valuations would be undertaken by a professional valuer appointed by the company, and this could be made a statutory requirement.[108] This provides some economy of scale, avoids the risk of inconsistent valuations across shareholders, and saves individual shareholders the cost and hassle of commissioning their own professional valuation.

Banding

Even after all practical steps have been taken to limit the need for professional valuations at taxpayers' own expense – whilst remaining faithful to the OMV principle – there would still be some cases where relatively low-value assets might require professional valuation at a cost that would be disproportionate given the tax at stake. To alleviate this concern, both an annual and one-off wealth tax could use a banded charging system based on total wealth, which allows for some imprecision in the valuation of relatively low-value assets. An overview of how banding works was discussed above.

In determining the appropriate width of each band, there is a trade-off is between the administrative costs on the taxpayer (greater for narrow bands) and the localised vertical unfairness of the tax resulting from the fact that the person at the bottom of the band will be paying the same tax as the person at the top (greater for broad bands).

We do not express a view on the optimal point on this trade-off, but for a detailed analysis of the implications of different banding designs, see further Hughson (2020). The case for banding may be weaker in relation to a one-off wealth tax than an annual wealth tax, unless possibly the bands only applied to those below a certain level of wealth. The vertical unfairness generated by banding would be more marked in relation to a higher one-off wealth tax compared with an annual wealth tax.

---

[107] See further *Wildin v HMRC* [2014] UKFTT 459 (TC). Difficulties on valuation may arise if a partnership agreement provides that the partners on retirement are entitled only to the return of their capital with no value ascribed for goodwill. In these circumstances it would appear appropriate for a one-off wealth tax to exclude goodwill to reflect the reality of that partner's share.

[108] An alternative option, that we have not considered in detail, may be to involve the Shares and Assets Valuation unit, which already provides a post-transaction valuation check service. Of course, on this basis significant additional resource would be required from government to develop additional capacity.

Preventing avoidance

Finally, one may worry that taxpayers will find ways to manipulate the reported value of their assets, either through legal avoidance or non-compliance. We do not think that this is a significant concern in the case of a one-off wealth tax applied in the manner that we have proposed, for two main reasons. First, as Pentelow (2020) highlights, there are already several established legislative measures for tackling common avoidance techniques.[109] This again flows from the fact that valuing assets without any actual arms-length transaction is not a novel problem in UK tax law. Second, a particular advantage of a one-off wealth tax is that a number of typical avoidance techniques are removed because they can only be achieved (legally) through action taken in advance of the assessment date. We discuss issues of forestalling resulting from anticipation of the assessment date in Section 4.3.

4.2.4 Liquidity

The problem of the 'asset-rich-cash-poor'

There is a widespread concern that if wealth tax payments make up a large proportion of a taxpayer's income (and realised gains), they could be forced to sell some of their assets to pay the tax. This is a particular worry where the taxpayer also has relatively little in liquid assets (such as cash savings or listed shares), meaning that they may need to sell illiquid assets (such as their house, farm or shares in their private business) to pay the tax.

For this reason, the most-often cited illiquidity concerns are with the pensioner on a low fixed income who lives in a large house, the farmer struggling to turn a profit, or the private business owner whose savings are fully invested in their company. These cases could indeed result in hardship, and we propose some solutions below. But before doing so, two preliminary questions arise. First, how common would instances of genuine illiquidity be under a wealth tax, in practice? And second, what is the exact nature of the concern when such cases arise? We need answers to these questions before we can determine what specific measures are appropriate.

Evidence on the scale of illiquidity

Loutzenhiser and Mann (2020) provide a detailed analysis of liquidity constraints under a wealth tax, using data from the ONS' Wealth and Assets Survey. This data source provides information at individual and household level on asset composition and income, for a representative sample of the Great Britain population. Advani, Hughson and Tarrant (2020) build on Loutzenhiser and Mann's work to draw conclusions on the scale of illiquidity concerns under our recommended design for a wealth tax.[110] Their focus is on determining how widespread instances of genuine illiquidity would be in reality, and (as far as possible based on observable characteristics) which types of taxpayer would be most likely to encounter these difficulties.

The main limitation of this analysis is that the available data for upper echelons of wealth (greater than £10 million per individual) is too thin to draw reliable conclusions. However, for

[109] For example: related parties rules (to prevent splitting of assets between closely related individuals), and rules that ignore restrictions on dispositions and some forms of encumbrance that could artificially reduce the OMV of an asset.

[110] In particular, our analysis assumes that a one-off wealth tax would be payable in annual instalments over five years, and that wealth tax attributable to pension wealth could be deferred until the pension lump sum was withdrawn. These aspects of design are discussed in more detail below.

this group, it is harder to believe that individuals would face genuine hardship if they were required to reduce their stock of wealth to pay the tax. It is also more likely that they would have access to credit and so could borrow commercially to pay the tax, eliminating the need to sell illiquid assets. But even for this group we do not discount illiquidity concerns entirely, and our proposed solutions would apply to those above £10 million wealth as well. Nevertheless, we think it is right to pay closest attention to the liquidity challenges that may be faced by those with lower levels of wealth.

The criteria we use to determine who would be 'liquidity constrained' is inevitably arbitrary to some extent, since there is no established definition, but the broad aim is to reflect the popular imagination of someone who is 'asset-rich-cash-poor'. To this end, we say that an individual is liquidity constrained where both of the following conditions are satisfied:

(1) The wealth tax that they would have to pay in a given year would exceed 20% of their net income (after all other personal taxes have been paid) *and*
(2) The wealth tax exceeds 10% of the combined total of their net income plus their liquid assets.[111]

The second criterion reflects that where an individual has relatively low income but large amounts in easily accessible savings, the popular perception that they would have to sell their illiquid asset (e.g. their home or business) to pay the tax is not really accurate.

For example, consider an individual with a total net wealth of £1million. If the one-off wealth tax threshold was £500,000 and there was an annual-equivalent rate of 1%, their tax liability would be £5,000 per annum. According to our measure, we would say that this individual was 'liquidity constrained' if they had less than £25,000 per annum in net income and less than £50,000 in combined net income plus liquid assets. So, on the second criterion, they might have zero income and less than £50,000 in cash savings, or (for example) £20,000 net income and less than £30,000 in cash savings. To reiterate, in this example the individual still has £1 million in total net wealth, albeit that more than £950,000 is in an illiquid form.

At a systemic level, the scale of liquidity issues depends on two main variables: the tax rate (expressed as an annual equivalent over the payment period if one-off) and the threshold above which the tax applies. All else equal, raising the tax rate obviously increases the number of individuals who would be liquidity constrained. Lowering the threshold also exacerbates liquidity constraints, because for a given tax rate it increases the individual's tax bill by increasing the amount of wealth on which tax is charged. To simplify the presentation of our analysis, in the following we assume an annual-equivalent tax rate of 1% but vary the threshold above which the tax would apply.

We find that:

- At a threshold of £500,000, around 1 in 14 of the individuals liable to pay the tax would be liquidity constrained.

- The proportion of liquidity constrained individuals rises to 12% in the range of total wealth between £1 million to £2 million, 26% between £2 million to £5 million, and 40% above £5 million.

[111] We follow Loutzenhiser and Mann (2020) in defining 'liquid assets' as net financial wealth in the Wealth and Assets Survey, and 'illiquid assets' as business wealth, property wealth and physical wealth (minus debts).

- Of all those who would be liquidity constrained under a wealth tax starting at £500,000 per individual:
    - 1 in 7 have their main home as their largest illiquid asset.
    - 1 in 5 have business assets as their largest illiquid asset.
    - 1 in 2 have pension assets as their largest illiquid asset.

We conclude from this evidence that the popular imagination of the pensioner, farmer or business owner who is liquidity constrained has some basis in reality, but even at an annual-equivalent tax rate of 1% (which is high by international standards) the problem is far less widespread than people might commonly suppose. Moreover, the likelihood of facing a liquidity constraint is highest for those with *more* wealth, which squarely raises the question of why and under what circumstances we should treat this as a pressing concern for a wealth tax.

Pinpointing the concern

For many, the distinctive purpose of a wealth tax, compared with other personal taxes, is to collect more tax from those whose wealth indicates that they have the 'ability to pay' despite reporting relatively little taxable income (or taxable capital gains). In other words, one of the key motivations for a wealth tax is the perception that people with high levels of wealth are well-off and could afford to pay some more tax irrespective of their incomes. If we really think that income is a much better indicator of someone's ability to pay, then there seems not much point in having a wealth tax in the first place, since we already have taxes on income.[112]

Some countries with an annual wealth tax have capped the taxpayer's liability by reference to their income. An 'income-based cap' has been used in France, Spain and some cantons such as Geneva in Switzerland. However, such measures undercut the fundamental purpose of having separate tax on wealth (rather than only taxes on income) and have also proved a problematic source of avoidance (Loutzenhiser and Mann 2020; Chamberlain 2020). The behavioural responses induced by an income-based cap would still occur even under one-off wealth tax, if payments could subsequently be reduced by reference to the taxpayer's ongoing income. We therefore firmly reject any suggestion of an income-based cap on liability, although this does not preclude measures to allow taxpayers more time to pay, which we consider below.

It is important to realise that even amongst those who we define as 'liquidity constrained' based on the available data, many would not in fact have to sell their illiquid assets to pay the tax. This is for two main reasons:

First, some individuals may be 'deliberately illiquid' (McCaffery, 2017), in the sense that they have chosen to arrange their finances in a way that minimises the income they receive at personal level, despite having access to funds in a controlled company. The reasons for such behaviour could be entirely worthy, such as a business owner reinvesting profits in their business. However, in some cases such behaviour is undoubtedly for tax reasons, since retaining profits inside a company rather than paying them out immediately as dividends can save tax.[113] Using the data available to us we are unable to identify precisely how often this occurs or for

[112] Although, as we highlight below, there is a strong case for expanding the base of *taxable* income to include more sources and ensure that all sources are taxed at the same effective rate.

[113] In particular, the fact that retained profits can be realised as a capital gain on sale or liquidation of the company and hence taxed at lower rates, and the ability to smooth taxable income over time to reduce income tax: see further Miller, Pope and Smith 2019.

what reasons, but such considerations could be accounted for under a statutory deferral scheme, which we consider below.

Second, some of the individuals who we define as liquidity constrained may nevertheless be able to borrow on the security of their illiquid assets. In other words, the source of their illiquidity is also a means by which they can obtain funds to pay the tax, without having to sell the asset itself. This is particularly the case in relation to land, whether residential property, commercial property or agricultural land. A better-regulated market for equity release could make this option more feasible and cost-effective for individuals who are liquidity constrained for any number of reasons (i.e. not only tax), and there would be a good case for doing these reforms anyway. Nevertheless, we do not rely on this solution as part of our recommendations.

Instead we recommend three solutions, outlined below. The first two measures are 'across the board' solutions that should be applicable by default without any reference to the taxpayer's circumstances. These concern the time period over which the tax can be paid, and special measures for deferring the tax attributable to pension wealth. Our data analysis above already assumes that both of these measures are adopted. The third measure is not included in our modelling above but would apply additionally to further alleviate liquidity concerns. This measure, based on existing 'time to pay' arrangements, would allow for deferral of the wealth tax liability, but only where the taxpayer can show that they meet specified criteria.

Standard payment period

We recommend that as standard a one-off wealth tax should be payable in instalments over multiple years, without incurring any penalties or excessive interest. As we explained in Section 2 , this does not turn a one-off tax into an annual tax, because it remains the case that there is only one assessment. The liability thereafter remains fixed and subsequent payments are just like instalments under a loan. For a given headline tax rate, the longer the period over which payment is allowed, the lower the annual-equivalent rate. A lower annual-equivalent rate reduces liquidity concerns by making it more likely that taxpayers will be able to fund the tax out of their income.

On the other hand, there are at least three political risks to extending the standard payment period too long. First, it increases the likelihood that taxpayers will lobby successfully for reassessment or other relief to reflect changes in their circumstances that occur long after the original assessment date. Second, it pushes revenue further into the future, which should not matter in principle but unfortunately does matter to politicians due to the way in which policies are 'scored' for budget purposes. Third, a one-off wealth tax is intended to respond to an exceptional crisis; the longer the payment period, the more likely it is that governments become structurally accustomed to the revenue even after the effects of the original crisis have dissipated.

The trade-off between these countervailing considerations is ultimately a matter of political judgement and we do not express a firm view. However, we suggest that a standard payment period of five years would be appropriate. The main reason for this is that as a matter of political reality – partly due to the length of the electoral cycle but also the budget window – this seems to be about the longest time horizon that politicians are willing to contemplate. This places some practical limit on the highest headline rate that could be applied under a one-off wealth tax without liquidity constraints becoming a first-order concern.

Notwithstanding our recommendation of a five-year standard payment period, taxpayers should also have the option to pay the full amount of their tax liability under a one-off wealth tax immediately, if they would prefer. We think that the system should be designed as far as possible to ensure that taxpayers are neither encouraged nor discouraged from paying off their wealth tax liability early.[114] Accordingly, although interest should be applied to any outstanding liability after the first year when payment is due, the rate should be set equal to the 'risk-free rate of return' (which is approximately zero under current economic conditions) i.e. at a rate that does not penalise the taxpayer for taking longer to pay, up to the end of the standard payment period. The same approach should apply in relation to deferred tax on pension wealth (discussed below), up to state retirement age.

Deferral for tax on pensions

We also recommend special measures for deferring the tax attributable to pension wealth that will go beyond the five-year standard payment period. As we explained in Section 4.2, we think that in terms of *liability* for a wealth tax, it is essential that all types of asset are treated equally. There should be no question of exempting pension wealth altogether on account of its illiquidity. However, in terms of *payment* of a wealth tax, pensions are unique in that taxpayers would often have literally no ability to use their pension wealth to fund their tax payments. It is therefore not merely that liquidating this type of asset would be unpalatable (which also applies for homes and businesses) but that it is legally impossible. Unlike other illiquid assets, it is also more or less impossible to borrow against one's pension wealth. Although we have considered other options such as getting the pension scheme to pay the tax from the pension fund this raises some complicated issues not least that deducting the tax from the pension fund would put a significant burden on the pension provider unless done at a flat rate in which case it would affect large numbers of people who are not liable to wealth tax at all.

Consequently, we recommend that by default, taxpayers under a wealth tax (whether annual or one off) should be entitled to defer the tax attributable to their pension wealth until they crystallise their pension or reach state retirement age, whichever is sooner. At that point, the tax liability would become due and could be paid either out of the pension lump sum if the pension is crystallised or would need to be paid out of other sources if not. The tax attributable to an individual's pension should be treated as the *'top slice'* of tax such that pension wealth does not affect their liquidity one way or the other. The exempt threshold would be allocated first against other assets. HMRC would notify the pension fund of the tax that is due against the taxpayer's pension so that this could be deducted automatically when the pension lump sum is paid.

The result of this approach is that some revenue from the tax would be deferred past the end of the standard payment period. However, we estimate that this delayed revenue would amount to no more than 22% of the total revenue (assuming a standard payment period of five years), of which almost three quarters (74%) would arrive within ten years from the end of the payment period. After a further ten years, all but 2% of the deferred revenue from pension wealth would have been received. This relatively short timescale is because most people with significant pension wealth are already near retirement age anyway.

Statutory deferral scheme

To summarise so far, the evidence shows that the proportion of taxpayers who would be liquidity constrained under a wealth tax at an annual equivalent tax rate of 1% is low, after applying the two measures outlined above. Furthermore, of those who might superficially

[114] It also follows from this that if the taxpayer dies before paying in full, any outstanding wealth tax liability should be treated as a liability of their estate.

appear to face difficulties, we have explained that many could in practice solve their illiquidity problems without being forced to sell any of their illiquid assets. Nevertheless, we recognise that there will inevitably still be some cases of genuine hardship, where the taxpayer has exhausted other options and would have no choice but to sell a large illiquid asset like their home or business, in order to pay the tax. We think that these cases – whilst likely to be rare in practice – do require a fair solution.

There are several existing models within the UK tax system that allow taxpayers to defer tax liabilities in certain circumstances. First, where IHT is due on land, or some shares and businesses, it can be paid over ten years by yearly instalments. Second, where CGT applies to gifts of some types of asset and holdover relief cannot be claimed, then again, the tax may be paid over ten years. In both cases, the conditions for deferral are defined in legislation.[115] Third, HMRC operates a 'Time To Pay' (TTP) scheme that applies to all forms of tax debt. Although TTP arrangements fall within HMRC's discretion rather than under legislative conditions, the exercise of discretion is based on objective criteria.[116]

We recommend that a 'statutory deferral scheme' should be available to allow taxpayers to defer their wealth tax liability beyond the standard payment period. This scheme should operate according to criteria that are specified in legislation rather than at HMRC's discretion. We do not specify precise criteria here, but in broad terms we think they should reflect the considerations outlined above, namely: whether the taxpayer is liquidity constrained given their income and liquid assets; and whether the taxpayer has any alternatives to selling their illiquid assets, such as drawing dividends from a controlled company or obtaining secured borrowing over their illiquid assets. Of course, HMRC would also retain their existing concessionary powers to operate TTP arrangements where a taxpayer had fallen into particular hardship.

4.3 Administration

The practicalities of administering a wealth tax are discussed in Troup, Barnett and Bullock (2020), who focus on an annual tax. A one-off wealth tax gives rise to a few different considerations, but for the most part the key issues are the same. Our discussion below is again premised on the design that we recommend in Section 4.2, notably a comprehensive tax base with very few exemptions or reliefs. If there is a proliferation of measures to cater for special cases, this would significantly add to administrative complexity, both from the taxpayer's perspective and in the development of systems for filing and compliance. This is one of the key lessons to be drawn from the administration of IHT and from other countries who have had a wealth tax.

In this section we discuss three main issues for the administration of a one-off wealth tax: the filing process; issues of (non-)compliance; and the costs of administration on both taxpayers and government agencies including HMRC.

4.3.1 Filing process

A key principle for design of the filing process is that, as far as possible, taxpayers should be assisted to file by themselves without the need for professional help. Partly, this again depends on the simplicity of the underlying tax design, since IHT shows how a proliferation of exemptions

[115] Inheritance Tax Act 1984, Section 228; Taxation of Chargeable Gains Act 1992, Section 281(2). There are also provisions to allow CGT to be paid in instalments where the taxpayer sells an asset such as land for a fixed sum but the sum is only payable over a period of years.
[116] See further HMRC's Debt Management and Banking Manual, DMBM800040.

and reliefs can make the filing process unnavigable for lay people. It also requires investment of resources in both digital technologies and operational staffing. Skimping here would risk undermining public acceptance of the tax.

The current filing process for income tax and CGT is based around the 'self-assessment' (SA) system, which mostly operates on an annual cycle, with the main filing deadline on 31 January each year. By contrast, IHT has a separate filing process. If imposed on a one-off basis, a free-standing filing mechanism would be feasible. Offsetting the filing deadline rather than aligning it with SA may help to smooth staffing resources within HMRC. On the other hand, it could be less convenient for taxpayers. Government would need to decide where to strike the balance. Whatever the timing, the filing process should be online for all those who would prefer to file in this way,[117] given the increasing shift towards digital for other taxes. However, unlike Troup, Barnett and Bullock (2020), we think that a paper form ought to be available as well where specifically requested, to ensure that those who are not confident online would not be required to use an agent.[118]

For the design of the form, Troup, Barnett and Bullock (2020) point out that there is trade-off as to the level of detail required. On the one hand, the collection of unnecessary information should be avoided to reduce administrative costs for the taxpayer. On the other hand, HMRC needs sufficient information to allow them to undertake efficient risk assessment: 'greater detail allows better targeting and hence "smarter" (and potentially fewer) audits'. Amongst the existing capital taxes, there are different approaches. For CGT, the SA form comprises a simple 'summary' by asset class, although in practice additional information is often required in the 'white space' at the end of the form.[119] For IHT, there are over twenty separate forms, each requiring more granular reporting, although this is partly due to the number of reliefs and complexity of the tax. The appropriate balance for a wealth tax will lie somewhere between these extremes.[120]

There is no reason why the same level of detail should be required for all filers. Under IHT, a shorter form is permitted for some non-taxpaying cases. Under a one-off wealth tax, if the filing threshold is set somewhat below the tax threshold (which may be advisable), then a short form should certainly be used for the non-taxpaying cases. There would also be a good case for extending 'short form' treatment to some lower-value taxpaying cases as well. This reflects that where there is less tax at stake, it would be reasonable to pick a different point on the trade-off outlined above, working more towards reducing taxpayer costs. Likewise, a short form could be used where the taxpayer's only high-value assets were ones for which HMRC already held information.

---

[117] IHT has so far 'lagged behind HMRC's wider programme of digitisation and online filing' (Troup, Barnett and Bullock, 2020), although it is now possible to file the short form (IHT205) online in certain circumstances and this facility is being expanded.
[118] Troup, Barnett and Bullock (2020) conclude that: 'with the increasing shift to digital, and the level of means and sophistication of [wealth] taxpayers, it will probably be appropriate to mandate digital filing'. However, the wealth taxpayer population would also be older than average, and we think that every effort should be made to facilitate self-filing without professional assistance where possible, which may mean accommodating those who do not feel able to file online.
[119] When HMRC requires the taxpayer to provide information, this should be in a structured format wherever possible, so that risking and statistical analysis can be automated.
[120] We do not recommend itemisation of individual assets, although some asset-level information may be pre-populated e.g. for UK real estate. Instead, reporting by asset class would suffice to identify 'hard-to-value' assets for risking purposes. The forms can be designed to highlight difficult areas such as residence, debt and trusts.

The administration of a wealth tax should adopt the best practices that HMRC is already piloting to improve filing experience, such as prompts, pre-populated fields, and integrated help embedded in the online form.[121] Pre-population would be predicated on third party reporting and/or 'in house' valuations. Under our recommendations for the practical approach to valuations, pre-population ought to be feasible for residential property based on values reported by the VOA, and for pensions and other savings and investments based on third-party reporting by financial institutions. In each case, there should be an option for taxpayers to substitute their own values, with discrepancies feeding into risking processes. This approach means that most of the tax return (by value) should be pre-populated for most taxpayers, apart from business owners.

A key issue for filing concerns the level of 'due diligence' required for self-assessed valuations. This again reflects a trade-off between the aims of reducing administrative costs on taxpayers and assuring compliance. The current guidance for IHT states that professional valuation is not required for items worth less than £1500.[122] This implies a maximum 'tax at stake' of around £600 (at 40% tax). For a one-off wealth tax levied at 5%, an equivalent *de minimis* would therefore be at least £10,000. Whether the threshold for requiring professional valuation could safely be set any higher than this depends on the quality of the guidance provided by HMRC to facilitate lay valuations. Whatever threshold is chosen, this should be communicated clearly to taxpayers so that they are not left to guess about the level of due diligence that HMRC expects. Banding (discussed in Section 4.2.3) could further assist by allowing adoption of a higher threshold where it is obvious that the taxpayer's total wealth will fall within the middle of a band.

4.3.2 Sources of non-compliance

There are three main types of non-compliance under any tax: innocent errors; failures to take reasonable care ('carelessness') and evasion. HMRC (2020b) estimates that errors and carelessness make up around 28% of the total UK 'tax gap', whilst evasion accounts for around 15%.[123] Consequently, **it is important not to think of non-compliance purely in terms of evasion.** As Troup, Barnett and Bullock (2020) note, 'While there is no reason to believe that mistakes and carelessness are more or less likely to arise with [a wealth tax] than with other taxes, the degree of error will be highly dependent on the complexity of the tax, the computations needed and the extent of any reliefs, given that complexity of calculations and the application of reliefs both being major causes of error for CGT and IHT.' The extent to which the tax design is simple will therefore have knock-on effects for the size of the tax gap.

The two main sources of non-compliance under a wealth tax would be undervaluation and failures to report (ownership of) assets.[124] Troup, Barnett and Bullock (2020) describe a spectrum of attitudes towards valuation that are short of outright evasion. These include 'sloppiness' where the taxpayer simply provides a ballpark estimate without taking sufficient care, and 'over-optimism' where the taxpayer submits a low value which – while it has some rationale behind it – is unlikely to stand up to detailed scrutiny. These practices may be difficult to distinguish from deliberate undervaluation (i.e. evasion) since all that separates them is the taxpayer's mindset. All of these variants of undervaluation are likely to be exacerbated if there

[121] However, more resource is required to ensure that pre-populated information is reliable and accurate.
[122] Strictly, there is no requirement for professional valuation of assets above this level, but failure to obtain a professional valuation may go to the issue of carelessness when assessing penalties.
[123] The remaining 57% comprises criminal attacks (14%) and hidden economy (9%), which are not relevant for a wealth tax, plus non-payment (13%), avoidance (5%) and differences of legal interpretation (16%).
[124] Valuation non-compliance could also include the overvaluation of debts.

is an environment in which enforcement is perceived to be weak (Kleven et al., 2011; Brulhart et al., 2020).[125]

Failures to report assets could occur through error or carelessness. At the lower end, there could be occasional 'cash in the attic' examples, although these will be relatively rare, and in any case, there is almost no prospect of detection by HMRC. At the upper end, Troup, Barnett and Bullock (2020) note that 'Practitioner experience has been that most non-compliance revealed by the [Requirement to Correct regime] was inadvertent – the tax legislation is counterintuitive; taxpayers are over optimistic about how the rules will apply to them; they had previously considered the position but the interpretation of the law has changed; or it is difficult practically to determine what is held'. However, we note that many of these errors will relate to interpretation of complex areas of law such as the remittance basis, rather than to identification of (ownership of) assets.

There will also be instances of deliberate concealment of assets.[126] Evasion through non-reporting is not a new problem, since HMRC already investigate attempts to hide assets that yield income or capital gains. A one-off wealth tax has the potential to assist these ongoing compliance efforts. Troup, Barnett and Bullock (2020) conclude that although an annual wealth tax would increase the overall incentive to conceal assets, 'it would seem unlikely that the level of evasion would be significantly greater than for other taxes'. Under an annual wealth tax at 1%, the tax saving from concealing an asset is likely to be similar to the tax saving from concealing income from that asset taxed at 40% or 45% (assuming a rate of return around 2–3%). The incentive to conceal would be larger under a one-off wealth tax at 5% (for example).

4.3.3 Enforcement

Troup, Barnett and Bullock (2020) emphasise that 'Modern tax compliance is based … on achieving a high degree of voluntary compliance through the operation of good systems, the creation of trust in the overall system and deterrence.' Third-party reporting and international exchange of information would be key to achieving these aims under a wealth tax and are already used increasingly extensively in enforcing payment of other taxes. Advani and Tarrant (2020) review the international evidence on the benefits of third-party reporting for compliance under wealth taxes and other capital taxes. The costs of improving these systems would be low relative to the total revenue raised under a one-off wealth tax and would have important spillover benefits for other taxes.

Recent years have seen step-change in HMRC's capacity to detect undeclared offshore assets. The most significant development is the UK's participation in automatic exchange of information with foreign tax authorities under the Common Reporting Standard, which was introduced in 2018. Although coverage under this regime is not yet comprehensive,[127] it makes it much more difficult to hide wealth offshore (Perret, 2020). HMRC has also devoted considerable resource through its Wealthy unit to focus on taxpayers most likely to utilise offshore structures (Troup, Barnett and Bullock, 2020). A series of 'voluntary disclosure

[125] See further Advani and Tarrant (2020).

[126] There is some debate about the extent of this issue. Based on information from audits, HMRC estimates that rates of evasion amongst the 'wealthy' customer group are no higher overall than for the wider population, albeit that more tax is at stake (HMRC, 2020b). International evidence from voluntary disclosure schemes and 'leaked' offshore financial information suggests that evasion amongst the wealthy may be more extensive. For further discussion, see Advani and Tarrant (2020).

[127] The regime only covers financial assets, not foreign real estate or other tangible property, unless these yield income in which case they may be detected indirectly. A further constraint on effectiveness is that the US does not currently participate.

schemes' including the Liechtenstein Disclosure Facility (2009–2015), the Worldwide Disclosure Facility (2016–present) and the Requirement to Correct regime (2017–present) have also enhanced intelligence on offshore non-compliance.

It would be possible to apply and enhance existing channels for third-party reporting. HM Land Registry and Companies House already provide information on beneficial ownership of land and shares (and there are soon to be extended provisions on disclosure introduced where land is owned through an offshore nominee. In the same way that taxpayers currently receive details from investment advisers of taxable income and gains, they could also receive a wealth tax valuation that is copied to HMRC.[128] It should also be possible to draw on the networks, tools and techniques already used to tackle international money laundering, terrorist financing and organised crime as set out in HMRC's 'no safe havens' strategy. Troup, Barnett and Bullock (2020) provide a fuller discussion of whether any new powers would be needed.

Audits (or 'enquiries') are also a crucial element of enforcement. HMRC's audit processes are primarily risk based. As Troup, Barnett and Bullock (2020) note, there would be several ways of assessing risk, including from taxpayer characteristics, information collected from the tax return, or external intelligence (including third-party reporting). They also highlight that 'increasingly, case selection for risk-based assessment is supported, and to a large extent driven, by data analytics to enable a wide series of data sets to be correlated against known and anticipated compliance issues and to improve case selection.' For example, machine learning methods for analysing tax returns could assist with enforcement (Mas Montserrat and Mas Montserrat, 2019).

Due to the relatively large amounts of tax at stake under a one-off wealth tax, it would be efficient for HMRC to invest significant resources in auditing. Under IHT, where even more tax is at stake per return, around a quarter of taxpaying estates are investigated by HMRC.[129] As well as the tax take from the year of audit, Advani, Elming and Shaw (2020) show for income tax that auditing can have a positive dynamic impact on tax compliance, by making it more difficult for the individual to under-report in subsequent years. Although this effect is less relevant for a one-off wealth tax than under an annual wealth tax, there would be positive spillovers from audits because HMRC could use these to cross-check subsequent income tax and CGT returns. This could reduce the administration costs for those existing taxes and increase the expected receipts.

Under a one-off rather than annual wealth tax, HMRC could smooth their audit process over multiple years without having to deal with any new assessments in the meantime. Consequently, it would not be necessary to conduct all of the audits in the first year. In the case of IHT, HMRC have twenty years to investigate where no return has been submitted. The time limit is four years in most other cases, unless an offshore element or disclosable tax avoidance is involved, in which case this is extended to twelve years to investigate. Similar time limits could be adopted in relation to a one-off (or indeed annual) wealth tax. As with IHT, on larger estates a final certificate confirming closure could be issued for a one-off wealth tax at the request of the taxpayer.

The penalty regime for errors – including failure to file or failure to notify as well as mistakes on the return itself – could broadly operate in the same way as other taxes i.e. be imposed where

[128] The chargeable event certificates on investment bonds that are sent to HMRC, for example, enable easy checks to be performed on a taxpayer to establish whether they have declared all chargeable income.
[129] Freedom of information requests submitted by private client law firm Wilsons and published by the Daily Telegraph revealed that in relation to IHT, HMRC collected a total of £274 million from over 5000 investigations in the 2019–20 tax year.

the taxpayer has not taken reasonable care. In relation to valuation issues in particular, Troup, Barnett and Bullock (2020) note that 'the penalty regime would need to be finely graded so as not to allow wildly inaccurate valuations to be adopted without penalty, while still giving taxpayers the confidence to adopt their own (personal) valuations without excessive fear of the consequences of honest misjudgement'. Where the loss of tax arises from a source of wealth outside the UK involving particular offshore territories, an enhanced penalty could be imposed (as at present).[130]

4.3.4 Administrative costs

The administrative costs of collecting a wealth tax are an important issue. In 1989, the former Chancellor of the Exchequer, Denis Healey, reflected on the position in 1974: 'We had committed ourselves to a Wealth Tax; but in five years I found it impossible to draft one which would yield enough revenue to be worth the administrative cost and the political hassle'. The Irish wealth tax, introduced around the same time and abolished in 1979, was criticised for having excessive administrative costs for taxpayers and the tax authority, with operating costs equal to one-quarter of the revenue (Sandford and Morrissey, 1985). Are these concerns still justified?

Costs to tax authority

Advani, Hughson and Tarrant (2020) estimate the costs to HMRC of introducing a wealth tax. These can be split into fixed costs – including systems for valuing property and processing returns – and variable costs, which depend on the number of enquiries the authority chooses to do.

The fixed costs are estimated to be £579 million. This comes from two elements. First, a £245 million cost of revaluing the entire housing stock, which is based on the costs from the 2001–05 aborted revaluation of council tax (uprated for wage inflation). Second, a £334 million cost of building a new administrative system, based on the costs of designing and developing the new Customs Declaration Service.

The variable costs are estimated to be £2,500 per audited return, as for self-assessment income tax. At an audit rate of 5%, this comes out at £125 per return, beyond the processing costs captured in the fixed costs above.

As Advani, Hughson and Tarrant (2020) note, these estimates are based on having a wealth tax design that encompasses a large number of individuals. In this circumstance, an approach similar to self-assessment income tax would be taken in terms of filing processes. If instead the wealth tax were focused on a much smaller group of individuals, the administration might take place more like IHT, with less automation and more correspondence between HMRC and the taxpayer even in the absence of a formal enquiry. The cost per case filed would be correspondingly higher, but the fixed costs much lower.

What share of tax revenue these costs make up depends on the tax rate that is set. At a (flat) one-off tax rate of 5% for example, the administrative costs make up between 0.7% and 1.4% of the revenue raised depending on the threshold selected. At higher thresholds the total revenue raised is lower, but as modelled the fixed costs do not fall so the costs are proportionately higher.

[130] For example, income or gains arising from a source in a category 1 territory (such as Guernsey, Isle of Man and Liechtenstein) impose a 37.5% penalty for careless errors and up to 12% for concealed errors while a category 3 territory will result in a 60% penalty for careless errors and 200% for concealed errors.

Using instead the central cost estimate from Burgherr (2020), the administrative costs at a 5% tax rate would be 1% for all thresholds. As a benchmark, PAYE costs 0.8% of revenue to administer, and self-assessment income tax costs 2% (HMRC, 2019).

Assuming that the highest tolerable efficiency cost for a wealth tax is, say, 5% of revenue, this implies that the lowest tax rate that could be charged as a one-off tax while still raising sufficient revenue would be around 1% (in total).

TABLE 5: ADMINISTRATIVE COSTS - IN CASH TERMS, AND AS A SHARE OF REVENUE RAISED

Threshold (£)	Rate	Revenue (£bn)	Taxpayers ('000)	Administrative cost (£m): to taxpayer	Administrative cost (£m): to govt	Administrative cost (% tax revenue): to taxpayer	Administrative cost (% tax revenue): to govt
Flat tax at 5%							
10,000,000	5%	43	22	723	582	1.7%	1.4%
5,000,000	5%	53	83	1,382	591	2.6%	1.1%
2,000,000	5%	81	626	2,432	683	3.0%	0.8%
1,000,000	5%	147	3,004	4,366	1,033	3.0%	0.7%
500,000	5%	262	8,246	7,226	1,734	2.8%	0.7%
250,000	5%	390	15,537	9,693	2,655	2.5%	0.7%
Flat tax raising £250bn							
1,000,000	8.5%	250	3,004	4,366	1,033	1.7%	0.4%
500,000	4.8%	250	8,246	7,226	1,734	2.9%	0.7%
250,000	3.2%	250	15,537	9,693	2,655	3.9%	1.1%

Notes: Revenue is calculated taking a 10% non-compliance rate into account, and is estimated before the deduction of admin costs.
Source: Advani, Hughson and Tarrant (2020), Authors' calculations.

Costs to taxpayer

Costs to taxpayers are split into the cost of valuing assets, filing and of any disputes. Advani, Hughson and Tarrant (2020) model the costs of valuation, accounting for differences in valuation cost by asset type. They also account for a fixed cost of filing, once assets have been valued.

Total administrative costs for taxpayers are lower at higher thresholds, since there are fewer taxpayers (Table 6). Wealthier individuals have higher administrative costs in absolute terms, since they have more complex assets to value; however, as a share of their assets (either taxable or chargeable) these administrative costs are relatively small.

The effect of these additional costs is to add around 0.1 percentage points to the headline tax rate.

TABLE 6: ADMINISTRATIVE COSTS TO TAXPAYERS

Threshold per individual (£)	Taxpayers ('000)	Total administrative cost to taxpayers (£m)	Administrative cost per taxpayer (£)	Administrative cost as % chargeable assets	Administrative cost as % taxable assets
10,000,000	22	723	32,557	0.05%	0.06%
5,000,000	83	1,382	16,572	0.08%	0.1%
2,000,000	626	2,432	3,884	0.07%	0.12%
1,000,000	3004	4,366	1,454	0.07%	0.13%
500,000	8246	7,228	877	0.07%	0.12%
250,000	15537	9,696	624	0.08%	0.11%

Notes: Chargeable wealth indicates assets within the scope of the tax base, excluding assets likely to be captured by de minimis exceptions. Taxable wealth represents amount of chargeable wealth above the tax threshold.
Source: Advani, Hughson and Tarrant (2020).

4.4 Thresholds and rates

It is not part of our remit to specify the thresholds and rates that should apply under a one-off (or annual) wealth tax, nor the total revenue that should be targeted. As we emphasised in the introduction to this report, these are archetypal matters of political judgement and democratic deliberation, since they form the main levers that determine the distributive effects of the tax; i.e. who pays and how much. In a paper accompanying this report Advani, Hughson and Tarrant (2020) provide detailed modelling of how much a wealth tax *could* raise, and from whom, at different rates and thresholds. The options presented there, and referenced in this report, should be read as possibilities, rather than our own prescriptions.

However, in this section we highlight that **the choice of thresholds and rates does have implications for design. We therefore set out the main trade-offs involved and indicate some bounds on the thresholds and rates that could feasibly be adopted.**

4.4.1 Threshold

Setting a low threshold increases the amount of taxable wealth. This is both because more people are above the threshold, and because more of the wealth for the wealthiest is now above the threshold. For a given tax rate, more revenue is raised by a lower threshold.

However, there are two major costs to having a low threshold. First, a low threshold increases the likelihood that – in the absence of any liquidity solution – individuals would need to borrow or sell assets to fund payment of the tax (Mann and Loutzenhiser, 2020). This effect comes largely from the higher amount of tax owed by individuals with relatively high wealth, since their wealth tax liability is higher. The solutions considered in Section 4.2.4 substantially mitigate these problems.

Second, at a low threshold there are more taxpayers who owe some amount of tax, so there is a greater administrative cost for the tax authority. Whether this is worthwhile partly depends on the tax rate, since with a low threshold and low rate the administrative costs can be a sizeable share of the revenue raised for some individuals (see Section 4.3.4).

For a given rate, having a higher threshold reduces these concerns. Since fewer, wealthier people are covered, the revenue per taxpayer is higher. As administrative costs do not rise proportionally with wealth, they become a smaller share of the tax take. Liquidity constraints are also less problematic. This is both because fewer people face them, and because those who do are at higher levels of wealth and so may have more capacity to borrow against assets. But clearly there is less revenue available.

For a one-off wealth tax, the administrative costs are low relative to the likely revenue raised (given plausible rates of tax). The relevant lower bound is therefore determined by liquidity constraints. From a political perspective, the absolute numbers of liquidity constrained taxpayers is likely to be an important consideration. As the tax threshold rises there are fewer liquidity constrained taxpayers, since there are also fewer taxpayers overall, but there is also less revenue. At an individual threshold of £500,000 there are around 570,000 people (7% of taxpayers) who are liquidity constrained at a tax rate of 1% a year (for five years), before the Statutory Deferral Scheme is used. At a threshold of £2 million this falls to 65,000 people. The latter is certainly manageable, the former is potentially harder (though possible) and in this case the Statutory Deferral Scheme would need to be administered with more rigid criteria and in a more automated way.

4.4.2 Rate(s)

A low rate will clearly raise less revenue. However, the administrative costs for both taxpayers and the tax authority are largely fixed independent of the tax rate, as we describe in Section 4.3.4. Consequently, **if the rate is very low then administrative costs become disproportionate to revenue**. For a one-off wealth tax this is unlikely to be as problematic. Even if the tax rate paid per year is relatively low, the assessment of liability only needs to be done once, so should be compared to the overall tax rate.

Higher rates raise more revenue. For a given threshold they also create more liquidity concerns: it is less likely that taxpayers can fund the wealth tax out of income and/or liquid assets. At high enough rates these concerns will persist even after taxpayers make use of the remedies in Section 4.2.4, requiring borrowing or sale of assets. This will potentially lead to greater political lobbying for retrospective exemptions or write-offs: if the tax is seen as affordable, it is more likely to be paid.

These concerns set effective bounds on the tax rates that can be considered, although these are contingent on the tax threshold. As shown in Table 7 below, the tax rates associated with a revenue target of £250 billion keep the number of liquidity constrained individuals (before the use of the Statutory Deferral Scheme) at or around 500,000. Selecting lower revenue targets would reduce the necessary rates and could be used to target some other lower cap on the number of liquidity constrained individuals.

One advantage of a progressive rate structure in this context is that it could reduce liquidity constraints, by requiring less tax of those with less wealth, while raising the same amount of tax. Table 7 below shows that the number of people who are liquidity constrained can be cut by a third (from 530,000 to 353,000) while keeping the initial threshold and total revenue unchanged, by using a more progressive structure of rates. However, it is for politicians to decide whether a flatter or more progressive structure is to be preferred for distributional reasons.

TABLE 7: NUMBER OF LIQUIDITY CONSTRAINED TAXPAYERS UNDER ONE-OFF TAXES, BY RANGE OF WEALTH

Threshold (£) per individual	Annualised rate	Number of taxpayers liquidity constrained ('000) by range of total wealth					
		all taxpayers	£250k-500k	£500k-1m	£1m-2m	£2m-5m	£5m+
Flat tax at 5%							
5,000,000	1%	18					18
2,000,000	1%	65				36	29
1,000,000	1%	171			33	106	33
500,000	1%	569		101	292	143	33
250,000	1%	1,261	79	509	482	159	33
Flat taxes raising £250bn							
5,000,000	5.84%	31					31
2,000,000	3.09%	146				106	39
1,000,000	1.72%	333			136	163	34
500,000	0.96%	530		90	266	141	33
250,000	0.65%	526	35	160	208	98	26
Progressive taxes raising £250bn							
Starting at £500,000		353		40	146	134	33
Starting at £1,000,000		158			20	104	34

Notes: An individual is liquidity constrained if their immediate tax liability exceeds more than 10% of their net income and 20% of their net income plus liquid wealth. For more details see Advani, Hughson and Tarrant (2020).
Source: Advani, Hughson and Tarrant (2020).

4.5 Delivery

Delivering a one-off wealth tax from inception through to full operation would be a major undertaking. Although one can point to entirely new taxes introduced within the recent past, there have been none on this scale. Nevertheless, capital transfer tax (CTT) was enacted within a year of announcement in 1974 and backdated to impose tax on all transfers from Budget day, 1974. Looking further back, after plans for the National Insurance system were announced by Churchill in 1943, the system was up and running by 1947. Meanwhile, PAYE was introduced – using only paper records – whilst the Second World War was still ongoing. As we noted in our introduction to this report, times of crisis are also opportunities to think big.

4.5.1 Pre-announcement planning

Pope and Tetlow (2020) discuss how a one-off wealth tax for the UK should be delivered. Their key conclusion is that 'The process to deliver a one-off wealth tax would almost operate "back-to-front" ... with announcement preceding extensive legislative and implementation effort'.[131] In particular, they advise against any public consultation or 'pitch-rolling' in advance of the policy announcement. A one-off wealth tax is most effective if it is not anticipated prior to the assessment date, which, as we have recommended, should coincide with the policy announcement. Prior pitch-rolling would result in individuals seeking to plan their affairs ahead of the assessment date i.e. 'forestalling', which we discuss below.

[131] Pope and Tetlow (2020) p.23.

For this reason, **we recommend that the government should decide for itself whether a one-off wealth tax should be implemented, with internal support from HM Treasury and HMRC, and then (if so) announce it with immediate effect.** In practice, this means that the assessment date (i.e. the date chosen for assessing the value of taxpayers' wealth) should be on or shortly before the date when the government announces that it intends to implement a one-off wealth tax. As Pope and Tetlow note, 'This would require HMRC and the Treasury to have devised the details, such as the base of the tax, in secret in advance of the announcement.'

It is often necessary for government to prepare tax changes without public consultation in order to ensure their effectiveness. In March 2020, the reduction in the lifetime cap for Entrepreneurs Relief was announced with immediate effect, at a potential cost to some taxpayers of up to £900,000 in additional CGT, including on gains that had already accrued prior to the announcement date.[132] In Summer 2020, the government was criticised for trailing the prospect of an SDLT holiday, on the basis that this advance warning was counterproductive to the intended stimulus effect on transactions (Fraser, 2020).

However, these examples were 'stroke of the pen' measures that (for the most part) only required adjustment of existing rates and allowances rather than structural changes. The introduction of an entirely new tax would require significantly more technical consideration prior to announcement. **It would be essential for HM Treasury and HMRC to establish a dedicated team to provide this internal support to government**. The team would need to be well-resourced and have continuity of staffing from inception to announcement, both to ensure coherence in the policy development process and to limit the total number of people with knowledge of the policy (which could be leaked).

4.5.2 Announcement

The government should ensure that on the announcement date, the policy is specified with as much precision as possible. It is not necessary that all administrative processes are communicated in advance, but the announcement should be accompanied by technical guidance that specifies the government's aims with respect to the definition of the tax base (i.e. taxable assets and persons) and method of assessment (i.e. valuation principles). Fortunately, as we have suggested, most of the key charging provisions in terms of definitions of property and OMV could be borrowed wholesale or modestly adapted from existing legislation for IHT and CGT. The threshold and rates should also be specified exactly.

By contrast, the Budget speech in March 1974 announced that CTT would apply to all transfers of wealth from that date forward, but did not offer any further particulars even on rates and limits, which were only announced in the autumn with the legislation enacted a year later. We would not recommend this approach: (potential) taxpayers ought to be able to determine with adequate certainty the extent of their liability on announcement, particularly as it may affect later life events such as lifetime gifts and decisions about sales of businesses.

Nevertheless, the legislative complexity of a new tax should not be underestimated, and it will be difficult to anticipate every technical issue before announcement. Some level of consultation after announcement on some technical aspects is inevitable. However, post-announcement consultation should be restricted to technical issues rather than broad principles (for example, which assets to include in the tax base), for two key reasons. First, as above, this is necessary to ensure that taxpayers have adequate certainty at the date of announcement. Second, lobbying

[132] The change affected those who had already exchanged on the basis of the higher exemption if they had not completed the sale by Budget day.

and other political pressure is more likely where there is lack of clarity about policy purpose and design.

4.5.3 Prevention of forestalling

In Section 4.2, we emphasised that a one-off wealth tax is most effective where there is no opportunity for individuals to 'forestall' in anticipation of the policy. A key component of preventing forestalling is ensuring that there is no delay between the policy's announcement and the date when it takes effect (i.e. the assessment date). But even then, some forestalling could occur if the policy was anticipated, for example as a result of media speculation or (worse) specific leaks. Here we consider the main types of behavioural response that potential taxpayers may attempt to use to forestall a one-off wealth tax, and how these can be tackled through effective design.

First, **several of the most obvious forestalling behaviours are already prevented by the design that we have recommended** in Section 4.2. For example:

- **Emigration** would not succeed in avoiding the tax because of the 'backwards tail' for residence, which we recommend extends seven years prior to the tax year of assessment. Under this backwards tail, even emigrating (up to) three years prior to the tax year of assessment would not be sufficient to avoid liability, if the individual had previously been a long-term resident.

- **Shifting the form in which assets are held** before the announcement date would not succeed in avoiding the tax, provided that (as we have recommended) the tax base is comprehensive. However, if there were major exemptions from the tax base and these were known about or trailed in advance, then forestalling by asset-shifting would be much more problematic.

- **Moving assets offshore** before the announcement date would not succeed in avoiding the tax because it applies to the worldwide assets of anyone who is UK resident for wealth tax purposes (including the backwards tail) on the assessment date. As we discuss in Section 4.3.3, the recent improvements in international exchange of information would assist with enforcement.

There is some risk that the *anticipation* (rather than actual implementation) of a one-off wealth tax could discourage immigration and foreign investment into the UK, if there was uncertainty about its possible application to newly arrived residents and to UK-sited assets held by non-residents. In our recommended design, a one-off wealth tax would not affect new residents or investments by non-residents into UK-sited assets other than real estate,[133] so these concerns would be unfounded. Nevertheless, reassurances could not be given until the announcement (accompanied by technical guidance), which is a further reason for keeping the policy entirely under wraps until then.

Second, **forestalling through fragmentation of wealth using gifts could occur to a limited extent.** Broadly, the strategy would be for an individual (the donor) to give away some of their wealth prior to the assessment date, with the aim of reducing their own anticipated wealth tax liability

[133] See further Section 4.2.3 and Appendix.

without correspondingly increasing the liability of the donee.[134] Here, it is useful to distinguish between several types of planning strategy:

- **Completed outright gifts.** In anticipation of a wealth tax, an individual may give some of their wealth to their (less wealthy) spouse. This seems unobjectionable and indeed we suggest that couples could be given an option to elect joint assessment anyway, which would have a similar effect. Gifts to minor children would be ineffective because we recommend that these are attributed back to the donor parent.[135] Gifts to adult children would be an effective planning strategy although if it is a genuine gift with no reservation of benefit then it is hard to see why there should be any problem with this, although it would reduce revenue. In any case, for various reasons, making such gifts may not be appealing and so this is unlikely to be widespread.[136]

- **Gifts with reservation of benefit.** Individuals could seek to give away assets but reserve some benefit in the property. For example, an individual might give away an interest in their main home to their adult children but continue to live in the property rent-free, or take a loan secured over the property and give away the proceeds. These strategies were historically used in IHT planning but have now mostly been countered by legislation. Similar rules could be extended in relation to a one-off wealth tax if needed. However, doing so would increase complexity (Troup, Barnett and Bullock, 2020) and may not be necessary.[137]

- **Gifts into trust.** Individuals may seek to settle assets on trust for the benefit of others. Under the recommendations that we make in the Appendix to this report, such gifts would not be effective to reduce the settlor's wealth tax liability because where the settlor is UK resident for wealth tax purposes, tax is payable by the trustees out of the entire trust fund even if the settlor is excluded from benefit. In any case, settling assets into trust is not straightforward and could incur IHT upfront charges, so may not be desirable even if it was thought that the eventual application of wealth tax to trusts would turn out to be more generous than we have proposed.

- **Conditional gifts.** Individuals may attempt to make uncompleted contracts for disposal of assets at an under value, where the exchange takes place before the anticipated assessment date but the completion date is sometime later allowing the contract to be rescinded if the one-off wealth tax did not materialise. It should be possible to deal with this by way of anti-forestalling measures similar to those used in recent legislation in the March 2020 Budget, which restricted Entrepreneurs' Relief where the contract was uncompleted.

Third, although it is possible that other legal avoidance strategies may be devised, they are unlikely to be widespread. As a general point, devising tax strategies when you know the threshold rates and design of the tax is one thing. Guessing the design of a possible tax in

---

[134] For example, where the donee would be below the tax threshold or would face a lower marginal rate of tax, if the wealth tax was anticipated to have a progressive rate structure.
[135] See further Section 4.2.1.
[136] First, the parent may not want their children to take outright ownership. Second, giving away large sums might be difficult if assets may be needed for the parent's own retirement or care needs. Third, the parent may not have liquid assets to give away. Fourth, the gift could trigger an immediate CGT charge if the assets show a gain, unless the gift is of cash or a relief applies.
[137] There are several downsides to this type of planning that would make it a fairly unattractive option for forestalling a one-off wealth tax, including a potential up-front charge to SDLT if the property was mortgaged and additional charges under IHT if there was a reservation of benefit.

advance of any publication of a Budget press release or legislation would be quite another. Any strategy other than an outright gift would risk ineffectiveness,[138] and even then, one would need to hope that the donee would be under the wealth tax threshold. Consequently, unless the one-off wealth tax was anticipated well in advance with a high degree of certainty and precision, attempts at forestalling would have a low chance of success.

More specifically, one can predict the types of schemes most likely to be used, since these are already familiar from IHT. For example, individuals might try to use debt in the form of 'soft loans' from connected parties to generate liabilities that could be deducted from the value of their assets on the assessment date. Other options might include trying to devalue the assets in advance of the announcement by use of cross options and artificial restrictions. However, all these have been tried for IHT purposes and can be dealt with in a similar way to the IHT legislation. Devising schemes that would actually be effective (i.e. that would not be countered by probable anti-avoidance measures) would not be straightforward and is unlikely to be worthwhile.[139]

4.5.4 Process for implementation

Given the need to prevent taxpayers from anticipating the announcement of the one-off wealth tax, it would be difficult for HMRC to begin work on operational details very far ahead of the announcement, at least insofar as this required the involvement of third-party providers (for example, IT systems). Even after announcement, it is likely that any government would come under pressure from various sources to exempt specific types of assets. There is a tension here between allowing time for careful implementation versus giving people more time to lobby for their particular interest. The better the design and the clearer the policy and political message when announced, the less likely this is to occur. This depends on having a high-quality and long-term team in place from the outset.

The Institute for Government reports *Doing them justice* and *Learning the lessons from universal credit* (Norris et al. 2014; Norris and Rutter 2016) provide a set of principles to inform the delivery of major government projects. Applying those that are most relevant for delivery of a one-off wealth tax:

- **'Be clear about the problem and the outcomes that matter most'** – we have attempted to lay out key objectives and trade-offs. The clearer the high-level goals set by the government, the easier it will be to get good policy design and avoid lobbying pressure.

- **'Think about implementation while still developing the policy'** – we have sought to follow this advice ourselves but recognise that further detail on the practical implementation will be needed and should be considered at the earliest possible stage.

- **'Never skimp on planning for implementation'** – it is crucial to invest heavily in policy design and planning, and easy to underestimate the resources required to do this effectively. Without public consultation, it will be even more important to develop this capacity internally.

- **'Get the right capability and capacity in place' –** the project requires a dedicated team working full-time (rather than using spare capacity) and with direct access to those with

[138] And as already noted above, making an outright gift – with all of the economic consequences that this entails – is unlikely to be appealing to many.
[139] Especially because, even under a one-off wealth tax, the rate would still be significantly lower than under IHT, where attempts at avoidance are more prevalent.

power to make decisions. There must also be continuity of personnel throughout the project.[140]

- **'Create a culture for delivery'** – universal credit was dogged by a separation of policy, operational and technical professions. This must be avoided by having a single multi-disciplinary team of staff from HM Treasury and both HMRC technical and operational experts.

- **'Be aware of, and ready to respond to, the wider system'** – development of policy and operations must be cognisant of interactions with the existing tax system at the level of both legislation and systems design.[141]

- **'Use junior ministers to drive progress'** – a project of this scale and political prominence requires close engagement with junior ministers at a minimum. For key milestones, direct reporting to the chancellor may be advisable. This also implies commensurate resources.

Additionally, we would emphasise that a one-off wealth tax could realistically only be delivered if treated as an appropriate priority. We have seen in relation to both Brexit and COVID-19 that HMRC and HM Treasury are well-capable of acting expeditiously, when given government backing. However, in the long run, it is not feasible to deliver projects on this scale merely by diverting resources from other areas.[142] In short, **for a wealth tax or other capital tax reforms to be delivered effectively, additional resources must be made available for the purpose of planning**, to ensure appropriate staffing without compromising existing HM Treasury and HMRC activities.

4.5.5 Timescale for implementation

Pope and Tetlow (2020) conclude that with the above requirements for good policymaking and a clear commitment of additional resources, **it should be possible to achieve full operation of a one-off wealth tax within 12 to 18 months after announcement**. Within this timescale, legislation would take up to 9 months to draft. Given that, under our recommendations, the tax payments would in any case be spread over a period of five years, this does not appear to be an excessive level of delay.

This does not mean that taxpayers would have to make first payments in the tax year of the announcement. The assessment date would need to be fixed but the first payment could be specified as due one or two years later. This would give taxpayers sufficient notice to gather the required valuations and for HMRC to provide the appropriate administrative support and to design appropriate filing and compliance systems. If new reporting procedures are required for financial institutions, or new valuation systems are required at the VOA (as we recommend) then these would also take time to deliver.

[140] On the problems of high turnover within HM Treasury in particular, see further Sasse and Norris (2019).
[141] This seems to be an area where Switzerland is particularly successful as the information required for the wealth tax also informs the income tax liability (Eckert and Aebi, 2020).
[142] For example, in order to deliver the 'furlough scheme', at its peak in May 2020, 16% of full-time equivalent staff from HMRC were reallocated to COVID-19-related roles, many from customer compliance groups. This facilitated fast and effective delivery but is not sustainable for most major projects.

HMRC will also need to develop processes to ensure that taxpayers are aware of the tax and to enable identification of potential taxpayers, even if the format of reporting is self-assessment. In relation to identification, HMRC's existing Wealthy unit would play an important role. There would need to be a public information campaign as well as communications to agents, and additional resources devoted to the Wealthy unit. Non-residents who hold UK real estate would need to be identified, although this already occurs in relation to CGT and IHT on real estate.

5. Annual wealth tax

In this part we consider an annual wealth tax, which differs from a one-off tax in that there is a new assessment each year. **An annual wealth tax is just one species of 'recurrent' wealth tax.** There is no particular reason – besides convention, and perhaps integration with filing for other taxes – why the period between reassessments should be one year. In Section 5.2.3, we briefly discuss whether there may be a case for having a recurring wealth tax over a longer cycle, for example a triennial (three year) or decennial (ten year) charge. Indeed, the UK's current '10-year charge' regime for trusts effectively operates as a very limited decennial wealth tax. There are some advantages to a longer cycle for reassessment, in particular through reducing administrative costs, but there are also some drawbacks since the assessment date risks becoming a more distinct target for behavioural responses. Here we focus on an annually recurring wealth tax.[143]

Annual wealth taxes used to be prevalent across the OECD, but they have declined over recent decades. From twelve countries in 1990, there are now only three that still levy an annual wealth tax: Norway, Spain and Switzerland. Most abolitions took place during the 1990s and early 2000s, following a broader trend towards lowering taxes on the wealthy that started in the late 1970s and 1980s (Förster, Llena-Nozal and Nafilya, 2014). Even amongst those countries that retained their wealth taxes into the 2010s, there was a trend towards increasing thresholds and lowering rates (Perret, 2020). Within the past decade, France,[144] Norway and Spain all raised the threshold at which the tax applied. In Switzerland, where the rate varies by canton, tax rates fell on average following vigorous competition in the 2000s (Brülhart et al., 2019).

Perrett (2020) finds **three frequent explanations for the abolition of wealth taxes: (1) negative economic impacts; (2) avoidance and evasion; and (3) administrative costs**. In relation to economic impacts, Perret concludes that 'The limited empirical evidence backing [these] arguments against wealth taxes suggests that political economy factors, including the role of special interests and shifts in ideas, played an important role in the way and the extent to which these economic justifications were used'.[145] By contrast, she argues that concerns about avoidance and evasion 'have been corroborated by significant evidence. Wealth tax bases have been narrowed virtually everywhere by tax exemptions and reliefs, and there is evidence that these have been used by wealthy taxpayers to minimise their wealth tax burden'. Finally, Perret concludes that administrative costs have been a significant factor, especially in relation to valuation.

Overall, **the decline of annual wealth taxes across the OECD indicates a negatively self-reinforcing spiral, both within and across countries**. The story is quite familiar. Administrative challenges made it difficult to maintain a comprehensive tax base valued at OMV. This left the tax exposed to lobbying for exemptions and reliefs. In turn, narrowing the tax base mostly benefited the wealthiest, leading to the impression that only the middle classes paid. At that point, 'any attempt to broaden the tax base would go against entrenched special interests and, in some cases, made it easier for policymakers to repeal them altogether than to reform them' (Henrekson and Du Rietz, 2014). Finally, across countries, as Perret (2020) notes 'governments

---

[143] Most of the issues under a biennial or triennial wealth tax would be very similar, albeit with some reduction in administrative costs and perhaps an uptick in the scope for avoidance.
[144] France subsequently abolished its annual wealth tax in 2018, turning it into a tax on real estate only. See further Dupas (2020) and Tirard (2020).
[145] See further Clark et al (2020) for a summary, and Herlin-Giret (2017) for a case study in France.

imitate[ed] each other and justified the repeal of wealth taxes on the basis that they had disappeared or were absent in other countries'.

Is there any reason to think that this time would be different? Perret (2020) highlights three new developments, although acknowledges that important difficulties remain. First, she argues that 'the context has changed: there is evidence that wealth inequality has increased and that capital income and wealth taxation play a more limited role than they used to'. Second, Perret identifies progress on international tax transparency and the fact that 'Countries can also now learn from previous wealth taxes and design them better'. Finally, she notes an increased appetite for change, 'with some evidence of heightened public perceptions of inequality and greater demands for fair burden sharing'. These are all reasons why it is useful to consider the topic afresh, although we must be realistic that the UK would not escape entirely the challenges of the past.

5.1 Principles

In this section, we evaluate the case for an annual wealth tax against the five criteria that we set out in Section 3. In applying these criteria, we assume that the design of the tax would follow the recommendations that we set out in Section 4.2 (in relation to both one-off and annual wealth taxes) and Section 5.2 (in relation to annual wealth taxes specifically). We focus on issues that differ from a one-off wealth tax.

5.1.1 Revenue

The tax base for an annual wealth tax would be the same as the tax base for a one-off wealth tax. In principle this means as much revenue could be raised from an annual wealth tax. However, there are three key differences that limit the revenue that can be raised relative to the one-off case, particularly at a low threshold (say £500,000).

First, the administrative cost is higher for both taxpayers and HMRC (see Section 5.2.5). This sets a **lower bound on the threshold at which a wealth tax can start**, even absent any other concerns. A wealth tax starting at £500,000 per individual would include a large number of individuals for whom the administrative cost is likely to be prohibitively large relative to the amount of revenue raised. At an audit rate of 5% on the more than 9 million people required to file, the ongoing costs of the tax would be around £1.2 billion (Advani, Hughson and Tarrant, 2020). This becomes easier at a threshold of £2 million per individual, where audit costs would fall to £104 million, so are more likely to be acceptable relative to the amount of revenue likely to be raised.

Second, the liquidity solutions proposed for a one-off wealth tax largely involve spreading the payment period over a longer horizon. This is not viable in the context of an annual wealth tax, since new tax liabilities would arise even while existing liabilities have not been paid off. Therefore, **liquidity concerns set an upper bound on how high the tax rate can be** before a significant number of individuals are required to borrow against (or sell) illiquid assets in order to fund the cost of the tax. In the absence of any liquidity provisions (discussed further in Section 5.2.4), 7% of individuals covered by the tax would be liquidity constrained.

Third, unlike a one-off tax, individuals can take actions to reduce their liability to an annual wealth tax. **Advani and Tarrant (2020) estimate that between 7% and 17% of the initial tax base would be lost to behavioural responses at a tax rate of 1%.** Even with a well-designed tax, individuals are able to respond in multiple ways, and the precise magnitudes of this for the UK are uncertain. This uncertainty is greater at the upper levels of wealth. In our revenue estimates below, we show the effects of using the lower and upper bounds provided.

Table 8 below shows the tax rates needed to raise around £10 billion a year in wealth tax, before accounting for administration costs. This revenue target is not selected as 'optimal' in any sense; rather it is an example of what is possible. It is roughly equivalent to adding 2p to the basic rate of income tax or 2p to VAT. It is also approximately 0.5% of UK GDP; Switzerland raises about 1% of GDP through a wealth tax, so this is not outside the realms of international experience.

After administration costs, wealth taxes starting below £1 million per individual do not (in the UK) raise enough revenue to be viable at these rates, on the basis that an efficiency cost (administrative cost divided by revenue) of more than 5% would not be tolerable. However, a wealth tax starting above £2 million per individual at a rate of 0.6% can still (assuming low avoidance) raise £10 billion after ongoing administrative costs, with only 7% of people being liquidity constrained.

TABLE 8: REVENUE ESTIMATE FOR AN ANNUAL WEALTH TAX

Threshold per individual (£)	Rate	Gross revenue (£bn) Low avoidance	High avoidance	Taxpayers ('000)	Administrative cost (£bn): one-off to govt	per year to govt
Flat taxes						
10,000,000	1.12%	9.9	8.7	22	0.6	0.003
5,000,000	0.91%	9.9	9.0	83	0.6	0.01
2,000,000	0.57%	9.9	9.4	626	0.6	0.1
1,000,000	0.31%	10.0	9.7	3,004	0.6	0.5
500,000	0.18%	10.2	10.0	8,246	0.6	1.2
250,000	0.12%	9.9	9.8	15,537	0.6	2

Source: Advani, Hughson and Tarrant (2020).

5.1.2 Efficiency

All ongoing taxes change behaviour. The mix of taxes selected to raise revenue should first correct any existing distortions, such as the overconsumption of carbon. It should then try to balance the distortions created to minimise the overall welfare cost caused by individuals' responses to tax, subject to any other goals such as managing the distributional effects of the tax. This maximises economic efficiency.

In this section we discuss what is known about how savings, investment and migration behaviours would be affected by a wealth tax. Section 4.1.4 on 'avoidance' discusses all other behavioural responses including those that lawyers would describe as 'tax mitigation', (legal) 'tax avoidance' and non-compliance.

Effects on saving

The classic economic argument against a wealth tax is that it disincentivises saving (Adam and Miller, 2020).[146] If the only value of wealth is the consumption you can achieve with it, a wealth

[146] More precisely, a wealth tax disincentivises work to finance future consumption specifically. An income tax disincentivises work equally at any point in time. A wealth tax creates a larger distortion when spending is intended to be later than work. This assumes people understand the implied incentives of

tax is a tax on that consumption. But unlike VAT, which taxes spending when it happens, a wealth tax is also taxing those who save to consume later. In principle this may distort savings behaviour. It may also create horizontal inequity, by taxing savers more heavily among people with otherwise similar incomes. However, in practice the evidence on both these points is weak.

Any distortion to savings matters for two reasons. First, it affects the timing of spending for individuals: it becomes 'cheaper' to consume now than to save and consume later. Second, the money that people choose to save enables banks and the financial sector to lend to fund investment. One might therefore worry that if a wealth tax were to reduce total savings, it would reduce the funds available for investment. We return to the second issue below.

Worries about distortions to the timing of consumption are what led the Mirrlees Review (2010) to conclude that the tax system should exempt the 'normal rate of return' on savings. This is typically measured as the risk-free return on savings and captures the idea that someone wanting to save today to spend tomorrow should not be worse off than someone who would prefer to spend today: tax should not distort the timing of consumption. However, 'excess returns' – returns above the risk-free rate – certainly should be taxed 'and [taxed] at higher rates than normal returns' (Adam and Miller, 2020). In contrast, **an annual wealth tax is by design *not* sensitive to the returns on wealth, so will effectively tax the normal rate of return more heavily than excess returns.**

To judge how important this effect is, one needs to isolate the extent to which individuals respond to changes in the risk-free rate.[147] If people change their savings decisions dramatically when the risk-free rate changes, then the distortion will be large. If people's savings decisions are not much affected, the distortion would be small.

The key empirical difficulty in isolating this effect is that individuals respond to taxes on saving in two ways simultaneously. First, a tax on savings reduces the benefit of saving now, as this provides less consumption later (the 'substitution effect'). Second, it potentially increases the need to save if an individual wants to be able to consume a certain amount later (the 'income effect'). What is observed in response to taxes on savings is a combination of the two and separating these is not straightforward.

Suggestive simulation evidence by Attanasio and Wakefield (2010) considered a tax which reduces the return on savings from 2.5% to 2.0%. In their benchmark case the tax raises the equivalent of 1.9% of consumption, but costs 2.1% of consumption: the difference between these is the welfare cost.[148] The welfare cost (in this example 0.2%) is positive, so should be compared to the welfare cost of alternative policies where information on these is available.

Effects on investment

The effect of a wealth tax on investment depends on the *overall* effect on savings available to invest. This now includes both the income and substitution effects. If the former effect

wealth taxes for their current working decisions. Advani and Tarrant (2020) find the labour supply effects of wealth taxes to be small. They note that labour supply responses to income taxes tend to be small anyway, and responses to wealth taxes are likely to be smaller since (among other reasons) they partly affect retirees, who have no scope to reduce labour supply.

[147] Specifically, one needs to isolate the 'substitution effect' from taxing savings.

[148] They perform a range of simulations, varying the parameter values and finding a range of welfare impacts (see Table 7.2 of Attansio and Wakefield (2011) for details).

dominates, this in fact provides a theoretical argument *in favour* of taxing wealth, though not necessarily in the form of a wealth tax (Straub and Werning, 2020).[149]

Looking at the question empirically, **the evidence suggests that people do not appear to respond substantially in terms of savings behaviour, and in some cases respond by increasing savings** (Advani and Tarrant, 2020). This is true whether the focus is on responses to wealth taxes, or indeed other taxes and subsidies that are designed to affect savings behaviour.[150]

Focusing more directly on observed investment decisions of the very wealthy, Advani and Tarrant (2020) identify only two studies estimating the effect of wealth taxes. One finds negative, but economically modest, effects (Hansson, 2008). The other finds an increase in investment, but in a context where business owners were effectively given a tax discount (reduced tax rate) for doing so (Bjørneby, Markussen and Røed, 2020) which we do not recommend. There is a need for more evidence in this area.

Guvenen et al. (2019) argue that, in theory, a wealth tax may be *better* at encouraging entrepreneurship than a capital income tax. As noted above, a wealth tax taxes more heavily the normal rate of return than a tax on income from wealth. For the same revenue raised, it can therefore tax more lightly excess returns. Investors who are very productive and generating high returns are therefore taxed less heavily than those generating lower returns, enabling them to make further productive investments. However, overall, there is little empirical evidence on the effects of a wealth tax on entrepreneurship among the very wealthy.

Effects on migration

Another related worry is that an annual wealth tax could cause wealthy individuals to emigrate or deter the wealthy (or aspirant wealthy) from arriving. This argument was politically important in contributing to the decline of wealth taxes in the OECD (Perret, 2020). It is often salient because the individuals in question may be well-known names, and so leaving the country (or threatening to) can have an important narrative impact whether or not it is reflective of a wider trend.

Advani and Tarrant (2020) summarise the empirical evidence on migration effects from wealth and income taxes. **Whilst internal migration effects appear to be large (where wealth tax rates are devolved), international migration effects are weaker**.[151] Studies of international migration responses to income taxes 'tend to find an elasticity of the stock of rich foreign taxpayers close to one, and an elasticity of the stock of rich domestic taxpayers close to zero' (see Advani and Tarrant, 2020, for a full list of citations) i.e. while domestic taxpayers appear not to respond substantially to changes in tax rates, a 1% fall in the amount of after-tax income earned in a country (holding fixed tax rates abroad) reduces the number of top earning foreigners in the country by 1%.

This lends some support to the argument that taxation could damage a country's ability to attract rich taxpayers from abroad. However, **the implications for the UK remain uncertain**. On one hand, Muñoz (2020) finds that the responsiveness of foreigners who pay tax in the UK is the

[149] There is also some theoretical case that a wealth tax which reduces investment could improve efficiency (Sicsic et al., 2019, 2020), but again there is little empirical evidence on this in either direction.
[150] For a more complete survey of the evidence, see Advani and Tarrant (2020).
[151] For example, in Switzerland which is a regional (cantonal) based wealth tax there is evidence of significant migration between cantons depending on the rate of wealth tax (Brülhart et al., 2020).

lowest or second lowest in Europe.[152] On the other hand, Kleven et al. (2020) show that the location decisions of migrants (i.e. people who have already moved before) are much more responsive to taxes than natives (i.e. people who still live in their country of birth), who very rarely move. The UK has much a larger stock of high-income foreigners than most countries, rising to three in ten of all those within the top 0.1% by income (Advani et al., 2020). This composition effect could potentially leave the UK more exposed than other countries to tax-induced migration overall, even if UK foreigners are relatively unresponsive. Further evidence is needed to disentangle these effects.

There are two other points of principle to note. First, these effects are not specific to a wealth tax, so they are only an argument against a wealth tax to the extent that the alternative tax being considered does not tax the same individuals to the same level. However, this is still a relevant consideration. Part of the role of a wealth tax would be to raise revenue in a *different* way to existing taxes, otherwise one could simply adjust existing taxes. For example, our recommended design would include taxing wealthy foreigners who are tax resident in the UK but currently benefit from the remittance basis, so they would see a tax increase. Second, these elasticities do not imply that 'Laffer effects' – where a small increase in rates *reduces* the amount of tax revenue received – have been reached.

Although some of the research in this area does specifically focus on the ultra-wealthy, the evidence for this group is much weaker. More usually they are in the study sample along with people who have more 'ordinary' wealth. To the extent that the responsiveness to tax varies with wealth, existing evidence produces an aggregate effect that combines these individuals together. The response to a wealth tax that starts at much higher wealth levels than have been seen elsewhere is harder to estimate accurately, in the absence of evidence showing how responsiveness changes with wealth.

Some of the immediate costs of a migration response could in principle be limited by imposing a 'forwards tail' on liability, an 'exit tax' or taxing on the basis of citizenship instead of residence (see Section 5.2.1), as some other countries currently do. However, these are partial solutions since they will worsen the incentive to immigrate to the UK. It is therefore not clear how useful such strategies would be beyond a temporary transitional solution on implementation of an annual wealth tax.

5.1.3 Fairness

Unfair to savers

One popular argument against a wealth tax, is that it is 'unfair to tax savers.' When asked to select the best case against a wealth tax, this was the second most popular argument, supported by 26% of those surveyed (Rowlingson, Sood and Tu, 2020).

This reflects a **concern about horizontal equity: that two people with otherwise similar incomes would be treated differently based on their savings choices**. It may therefore be a worry even if a wealth tax did not change prospective savings decisions very much—the efficiency concern discussed above. But this is ultimately also an empirical question: how much do savings rates

[152] It is also worth noting that the UK non-dom regime means that many of these individuals do not pay much (or possibly any) UK tax on their foreign wealth, if they are on the remittance basis. This will also dampen their sensitivity to UK income tax rates.

actually differ between people at the same level of total wealth? Given all the trade-offs that are necessary when designing taxes, is there a substantial horizontal equity issue?

Unfortunately, there is **little evidence on the extent to which horizontal inequity is a problem in practice.** If savings patterns are relatively similar for individuals with similar levels of lifetime resources (income and inheritances) then taxing savings is not creating much horizontal inequity.[153] Work by Fagereng et al. (2019) finds that at each level of income, 'active saving' (the proportion of income that is saved) is approximately constant across different levels of wealth. This suggests that there is little substantial variation in savings rates within income level.[154] But again this is an area where the evidence base is weak.

The advantages of wealth

The classic economic case against an annual wealth tax relies on the assumption that wealth is only valuable to the extent it can be converted into the consumption of other items. **If, as the Meade Report (1978) concluded, wealth also provides the holder with other benefits besides consumption, such as 'security, independence, influence and power', then this would create a case specifically for taxing wealth** (see for example Saez and Stantcheva, 2018).

Such additional benefits, beyond simply saving to smooth out consumption over one's lifetime or bequeath, are more likely to be relevant at higher levels of wealth. Advani, Bangham and Leslie (2020) note that lifecycle consumption-smoothing is very visible in the profile of wealth for individuals outside the top 1%, with wealth rising to a peak shortly before retirement. Such motives are less obviously present in the data for higher wealth individuals, with a much flatter lifecycle profile for individuals with wealth above £5 million.

Summers (2020) suggests that again this is an area where there is currently not much empirical evidence, 'although there is some suggestion in the empirical literature on estate taxes that 'wealth as welfare' could explain (part of) the observed desire to retain control of wealth whilst alive (Kopczuk 2007; Kopczuk 2013)'. Given its potential importance in shaping the future direction of optimal tax theory – on which the tax policy prescriptions of economists depend – this would be a useful area for further research.

Wealth inequality

In polling work by Rowlingson, Sood and Tu (2020) the two most popular reasons people supported a wealth tax were 'The gap between rich and poor is too large' (36%) and 'The rich have got richer in recent years' (33%). **For some people, concerns about wealth inequality are therefore a key rationale behind motivations for a wealth tax.**

However, **if the only goal of an annual wealth tax is to raise (relatively) more tax revenue from people with wealth, this does not necessarily require a new wealth tax**. Adjusting the existing taxes, either just by increasing rates or preferably by fixing problems in the design (discussed below), can bring in more revenue from people who have wealth (Summers, 2020). However, this approach has limitations.

[153] A related concern is that even if savings patterns do not vary across people with the same income over their lives, if there are individuals who receive more of their income early in life, they may pay more tax than those whose receive most of their income later in life. But there is little evidence on how relevant this example is.
[154] We come back to the results of this research below, since it has distinct implications for what a wealth tax does to inequality.

First, it is more straightforward to set the progressivity of an annual wealth tax than the progressivity of VAT, which taxes the spending of wealth. VAT has a common rate across all households independent of income or wealth. It is, however, (slightly) progressive: a one percentage point rise in the VAT rate increases costs by 0.57% of expenditure for households in the bottom 10% (by expenditure), compared with a 0.65% increase for households in the top 10% (Adam and Waters, 2018). This is because 'items that are zero- or reduced-rated for VAT (primarily food), and therefore not affected by a rise in the main rate, take up a larger share of the budgets of poorer households.' Despite this, it is likely to be less progressive than an annual wealth tax would be, especially given the lowest threshold that is administratively feasible for an annual wealth tax.

Second, other existing taxes on wealth raise money only when income is received from wealth, or that wealth is transferred (under certain conditions). This makes them poorly suited to raising money from the wealthiest individuals, who can typically structure their wealth to minimise the receipt of income, and can plan transfers of wealth in ways that do not attract tax.[155] In contrast to these taxes, a wealth tax raises money from wealth independently of whether returns are received, although passing on wealth may still reduce the tax paid if the recipients are below the wealth tax threshold. This set of arguments is referred to by Adam and Miller (2020) as 'second-best' arguments: that is, they explain the case for a wealth tax with reference to the problems of existing taxes. We discuss in Section 5.1.5 some of the specific recommendations that have been raised by others in relation to existing taxes.

For some people the goal of a wealth tax is actively to reduce wealth inequality by redistributing the current stock of wealth. If this is the goal, there is a limit to how much it can be achieved by taxes on returns and transfers of wealth (even if properly reformed). Even if existing tax rates were raised enough to achieve this in principle, the ability to postpone the timing of receiving returns and making transfers would likely minimise the tax revenue received, as people wait for the tax rate to change again. By contrast a wealth tax with a high rate would achieve this goal, if avoidance behaviours (discussed below) could be minimised.

We do not take any position on whether the government should use tax policy actively to reduce wealth inequality. But if this was the aim, a high rate is required because the return on wealth is increasing with the level of wealth (Fagereng et al., 2019). This means that with a flat tax rate on returns from wealth, the net rate of return on wealth is still higher for individuals with higher levels of wealth. A flat wealth tax rate at all levels of wealth (above some threshold) would also leave the net return higher for individuals with more wealth, and the tax would be proportionally larger on those with the lowest returns.[156] However, an annual wealth tax that starts at a relatively high threshold would only cover those with relatively high returns, so that it actually makes the net rate of return more similar for individuals inside and outside the tax.

5.1.4 Avoidance

The types of behavioural response under an annual wealth tax can vary significantly depending on the choices made in the design of the tax. Advani and Tarrant (2020) review a variety of responses observed from other wealth taxes and show which design choices have the most impact on these behaviours. Above (in relation to 'efficiency') we considered the effects on

[155] For example, giving away wealth long enough before death, or investing in exempt assets such as AIM shares or use of family investment companies.

[156] This concern, along with a desire to actively reduce the concentration of wealth (rather than merely raising more from those with higher wealth) is what motivates the high and steeply progressive tax rates proposed by both Elizabeth Warren and Bernie Sanders during the 2020 Democratic Primary campaign.

savings, investments and migration. **Here we consider a range of other behavioural responses, from straightforward 'tax mitigation', to what lawyers would term 'legal avoidance', to outright evasion.**

International experience

The international experience of wealth taxes has largely not been very positive. Perret (2020) identifies a mix of tax design and political reasons that led to the abandonment wealth taxes in nine of the twelve OECD countries which had them in 1990. Chief among the design concerns was equality of treatment across asset classes. Many countries have chosen to either exempt certain asset classes (for example, Spain exempts main homes and certain business assets) or effectively charge lower rates (as Norway does on business assets).

These exemptions and discounts at least partly relate to the basic valuation problem of an annual wealth tax (see Section 5.2.3).[157] Certain asset classes, most notably businesses, can be difficult to value. Departures from OMV (as in Switzerland), or the provisions of exemptions and discounts as above, have therefore been used. Both of these create incentives to hold business assets in preference to other assets, or hold other assets through a business, in order to reduce wealth tax owed. Liquidity reasons have also been cited (in India and Ireland) as reasons to exempt assets such as farmland. **Advani and Tarrant (2020) highlight the extremely large behavioural responses from this unequal treatment of different asset types.**

In Spain and Switzerland, internal migration responses due to regional variation in wealth taxes are substantial, making up one-third of the behavioural response in Switzerland (Brülhart et al., 2019). This also highlights the cost of devolving wealth tax rates (see Eiser, 2020, for more details on the trade-offs around devolution).

Behavioural estimate for the UK

Under the design choices we make below, **we estimate that at a tax rate of 1%, between 7% and 17% of the initial tax base would be lost to behavioural responses.**[158] This is not a trivial amount. But it also implies that tax would be raised on more than 80% of the true value of chargeable wealth. As shown earlier, this still has the potential to raise substantial revenue. **This number is an aggregate across all taxable wealth, so represents the expected overall revenue implications – it does not provide information on the *distribution* of such responses. These may be larger at higher echelons of wealth.**

Largely this estimate is made up of three types of response: deliberate underreporting/non-reporting (evasion), fragmentation, and migration. The majority of the response comes from the former two, but there is also some migration. Clearly for these individuals there would be a reduction in tax paid, since any personal tax they may currently be paying would stop (with the exception of any 'tailed liability', see Section 5.2.1), but given the size of migration responses observed, the overall impact of this would be small.

An important note of caution is that the estimates of behavioural responses are based on responses to taxes observed in the UK and elsewhere. This evidence rarely covers the ultra-wealthy specifically; they are sometimes in the sample but along with people who have more 'ordinary' wealth. To the extent that the responsiveness to tax varies with the level of wealth,

[157] For housing the concern is political rather than administrative.

[158] For comparison, 13% of all self-assessment income tax is not collected as a result of non-compliance (HMRC, 2019). Troup, Barnett and Bullock estimate that around 10% of a wealth tax would not be collected.

existing evidence produces an aggregate effect that combines these individuals together. **The response to a wealth tax that has much higher tax rates at the top than have been seen elsewhere is more difficult to estimate accurately**, in the absence of much evidence showing how responsiveness changes with wealth.

5.1.5 Alternatives

Whether a wealth tax is necessary to achieve the goals set out above, depends on what the alternatives are. The most obvious alternative would be to reform our existing taxes on wealth: in particular IHT, income tax (on investment income), CGT and council tax. These taxes currently lack a clear set of objectives. The legislation is complex; anti-avoidance rules have often been used to patch systemic incoherence. There are large distortions, especially across different asset classes and often the original stated policy behind reliefs and exemptions no longer holds up on serious examination. IHT is especially unpopular, partly due to the perception – which has a significant basis in reality – that the wealthiest are able to avoid it.

There have been numerous prior recommendations for reform. Each of these proposals differ somewhat in their details – but there is also a large measure of agreement between them. Despite these recommendations, minimal progress has been made. In the period since the financial crisis, there have been few structural changes, and for some taxes, one must look much further back for the last major reform. More active areas of legislation, such as CGT, have been characterised by frequent changes in policy without any hard look at the objectives or clear statement of direction.[159] **A roadmap setting out the principles and objectives for the whole system of taxes on wealth would provide much more clarity of direction**, as occurred for corporation tax under the Coalition government.

This report is about a wealth tax. We did not set out to make recommendations on other existing taxes on wealth. It would be inappropriate for us to attempt here a 'shopping list' of proposals without specifying the design and administrative details to the same degree of precision as we have done for a wealth tax. **Below we summarise the main criticisms of existing taxes and list several broad directions for reform based on recommendations that have been made by others**. What characterises all of these proposals is that they demand major structural changes to our current tax system, not just minor tinkering to rates and reliefs.

Inheritance tax (IHT)

The main criticism of IHT is that its design actively favours the very wealthy by offering them reliefs and exemptions not available to the person whose wealth is tied up in their home. The reliefs for business and agricultural property disproportionately benefit the wealthiest. Consequently, despite a headline marginal rate of 40%, on average effective rates of IHT peak at around 20% and decline to 10% for estates valued at over £10 million (OTS, 2018). Lifetime gifts can reduce the effective rate further and clearly benefits those who can make large gifts early without reducing their standard of living (again typically the wealthiest).[160] Despite major changes in 2006, trusts still provide additional planning opportunities as well as resulting in increased complexity as some lifetime gifts to trusts are subject to immediate tax. Other devices

[159] In 1998 Labour introduced taper relief; in 2008 this was abolished and replaced with a flat rate and Entrepreneurs Relief. Since then the rate of CGT and the level of Entrepreneurs Relief has see-sawed.
[160] Lifetime gifts to individuals made more than seven years before death are generally tax free provided the donor is excluded from any benefit. Those whose major asset is their home cannot effectively give it away if they need to continue living in it, because this would breach anti-avoidance provisions known as the 'reservation of benefit' rules, backed up by the pre-owned assets tax (POAT) rules.

such as fragmentation of shares through use of family investment companies can also reduce IHT while maintaining high levels of control. These aspects combine with more emotive objections to taxes levied on death, making IHT notoriously unpopular with the public (Shakespeare 2015).

Two main directions for reform have been proposed:

- **The All-Party Parliamentary Group for Inheritance & Intergenerational Fairness** recommended abolishing the current reliefs for agricultural and business property and extending IHT to all lifetime gifts made above an annual exemption and reducing the headline rates (APPG 2020). The CGT tax free death uplift would be abolished. These reforms would retain IHT as a tax on the donor, but with a significantly expanded tax base.

- **The Mirrlees Review**, as well as the **Resolution Foundation** as part of its Intergenerational Commission, recommended switching to a 'lifetime receipts tax' (Mirrlees et al. 2011; Corlett 2018), based on the cumulative amount received by the donee over their lifetime. All inheritances and gifts received would be taxed at the same rate, above an individual lifetime allowance. Existing reliefs would also be restricted or abolished altogether.

Income tax and capital gains tax (CGT)

Four main criticisms can be made of the current approach to taxing income from wealth. First, investment income is taxed at lower effective rates than earnings, mainly due to the wedge created by NICs but also given the lower effective rate on dividends; this distorts people's choices about how they work (Adam and Miller, 2019) and requires complex rules to mark the boundaries of employment. Second, this disparity is exacerbated by separate allowances for investment income and gains, and the facility to 'split' investment income between family members, which is not possible for earnings. Third, individuals are taxed on their nominal income, with no allowance for inflation; this means that some savers who receive low rates of return may pay tax even though the income leaves them no better off in real terms. Fourth, because the tax-base excludes 'in-kind' returns such as the benefits of living in owner-occupied housing, it distorts savings decisions across different asset classes.

The criticisms of CGT are similar to those for income tax. Individuals are taxed on their nominal gain, with no allowance for either inflation or a risk-free rate of return. On the other hand, headline rates are much lower than those applied to income, which provides an incentive for individuals to repackage income in the form of gains, especially where Business Asset Disposal Relief applies (Miller, Pope and Smith, 2019; Advani and Summers, 2020a). These distortions result in significant variation in the effective tax rates paid by individuals with the same total income and gains (Advani and Summers, 2020b). Additionally, the Annual Exempt Amount is higher than can be justified on administrative grounds, providing an arbitrary benefit to individuals who receive returns on wealth in different forms. Forgiveness on death (compared with CGT on lifetime gifts or sales) creates a 'lock-in' effect that can distort decisions about when to dispose of assets, worsened by various IHT exemptions.[161]

[161] This is particularly significant for assets that qualify for 100% Business Property Relief for IHT, as well as CGT forgiveness on death. See further OTS (2019).

Two main directions for reform have been proposed:[162]

- The **Office of Tax Simplification (OTS)**, as well as the **Institute for Public Policy Research** have recommended closer (or full) alignment of the rates of CGT and income tax, with an allowance for inflation (OTS, 2020; Nanda and Parkes, 2019). The allowance would operate as a deduction from the tax base, with the effect that only 'real' gains (above inflation) would be taxed. Broadly, this reform would mark a return to the approach adopted by chancellor Nigel Lawson in 1988.

- **The Mirrlees Review** recommended full alignment of the effective tax rates on all sources of income and gains, with an allowance for the normal rate of return (Mirrlees et al., 2011). Alignment would take account not only of income tax and CGT, but also NICs (on earnings) and corporation tax (pre-paid on dividends). The normal rate of return allowance would have the effect that only returns above the 'risk free' rate would be taxed.

Council tax

Although council tax is levied on occupiers, it operates somewhat like a tax on ownership of housing wealth where the property is owner-occupied (although with no deduction for mortgage debt). Criticisms of council tax must be viewed in historical context. The tax replaced the lump sum community charge known as the 'poll tax'; it was not designed, and certainly does not function as, a tax on people with wealth. Rates are regressive: lower-banded properties face a higher tax rate as a proportion of their value than properties in higher bands, and the top band applies the same charge to all properties above a current value of around £1.5 million. Moreover, because bands are determined by reference to 1991 property values, subsequent regional variations in house prices are not taken into account, mainly to the advantage of those living in London. It is hard to come up with any efficiency or equity justification for this approach to taxing residential property.

There are two main elements of reform, which are widely agreed:

- **Every institution** that has considered the issue in the recent past recommends that properties should be revalued. The government began this process for England in 2005 but abandoned it partway through. The obstacles to completing this reform are purely political. Further delay cannot be justified on any sensible basis.

- **The Mirrlees Review** recommended that the current regressive banding structure should be replaced with a single flat rate, initially set at a revenue-neutral level but eventually matching the main rate of VAT as applied to the rental value of the property. The **Resolution Foundation** and others have argued for a progressive rate structure.

5.2 Design

In this section we consider the key design features for an annual wealth tax. These are: taxable persons (who is taxed?), taxable assets (what is taxed?), approaches to valuation and liquidity concerns, and administration. Each of these issues is discussed in greater detail in the evidence

[162] The two main differences are: (1) whether the alignment of rates also takes account of NICs and corporation tax; and (2) the index used for the allowance. In the latter case, there is relatively little difference between the approaches under current economic conditions, because both inflation and interest rates are at historically low levels. For further discussion, see Summers 2020.

papers that preceded this report. We focus in this section on the specific issues that differ from a one-off wealth tax. Where the same issues arise under both forms of tax, these are discussed above in relation to a one-off tax.

Once again, our overarching aim is to keep the design as simple as possible in order to leave minimal scope for avoidance and preserve the horizontal and vertical equity of the tax. However, achieving this aim is much more challenging for an annual wealth tax than for a one-off tax, for two main reasons.

First, the element of reassessment under an annual wealth tax means that there is much greater scope for behavioural responses than under a one-off tax. **The desire to limit behavioural responses sometimes forces trade-offs in key aspects of design.** Second, an annual wealth tax is more costly to administer than a one-off wealth tax as a proportion of revenue (or tax paid), assuming that one-off wealth taxes are typically levied at a higher total rate. **The desire to limit administrative costs typically requires compromises that risk undermining the fairness and efficiency of the tax.**

We have attempted to strike these trade-offs and compromises appropriately, but others may wish to draw the lines in different places. It is important to reiterate that many of these challenges simply do not arise for a one-off wealth tax.

5.2.1 Taxable persons: who is taxed?

The tax unit

As with a one-off wealth tax, **we recommend that an annual wealth tax should be assessed on an individual (rather than couple or household) basis**. We discussed some of the arguments for this approach in Section 4.2.1 above. There are two main additional arguments for adopting an individual basis for an annual wealth tax:

- **A household or 'cohabitee' unit of assessment may distort people's choices about living together.** As Chamberlain (2020) notes, the design of the benefits system has been heavily criticised for this. If joint assessment was instead restricted to married couples and civil partners, then depending on the allowances for single versus couple units, this may be said to discourage marriage.

- **The UK personal tax system is currently oriented more towards an individual rather than couple or household basis of assessment.**[163] This is an important difference from other countries that have operated an annual wealth tax on a couples basis. In the UK, an individual unit of assessment for a wealth tax would make integration with the existing tax system easier.

We think that **the case for allowing couples to elect into a form of joint assessment is much weaker in relation to an annual wealth tax than under a one-off tax**. There would be less unfairness in requiring an individual basis where the tax is recurring, because over time, if couples were unhappy with the additional tax resulting from an unequal split of assets, it would

[163] However, there are elements of capital taxation that provide special rules for spouses, such as exemptions for transfers between spouses under IHT and CGT, and various 'related parties' rules.

be open to them to correct this by transferring assets to one another or into joint names.[164] This is not possible under an unanticipated one-off wealth tax.

The conclusion that an annual wealth tax should apply on an individual basis means that **one should expect some 'fragmentation' of wealth between spouses**. There is evidence that this occurred previously in the UK as the result of the transition from joint to independent income taxation in 1990 (Stephens and Ward-Batts, 2004). On the other hand, the majority of households did not fully exploit this opportunity to reduce their tax liability. As we note in Section 4.3 (in relation to forestalling under a one-off wealth tax), it is not obvious that there is any objection to this behaviour, although it would reduce revenue. Where fragmentation between spouses occurs, it would have the same effect as if the couple had been permitted to aggregate their wealth and allowances under joint assessment.

More problematic is if fragmentation occurs on a wider scale. As we noted in Section 4.2.1, gifts to minor children should be attributed back to the donor parent, albeit the tax paid out of the child's wealth. If gifts to others – such as adult children or more distant relatives – are made outright and the donor genuinely suffers the economic consequences of the gift (i.e. giving up control and benefit) then it is again hard to see any objection, although this would reduce revenue. The risk is that such behaviours could evolve and proliferate over time, for example dividing up wealth between grandchildren. On the other hand, as we highlighted in Section 4.3 in relation to forestalling under a one-off wealth tax, there are various (tax and non-tax) reasons why giving assets away in this manner may not be appealing.[165]

A further difficulty arises from **fragmentation through 'artificial' gifts**, where in reality the donor retains substantial control, rights and benefits over the gifted asset thus avoiding the economic consequences of the transaction. Although this can be dealt with by introducing rules similar to those used in IHT to prevent 'cake and eat it' arrangements,[166] these would increase the complexity of the tax. The existence of IHT itself acts as some deterrence to such arrangements and in this respect provides a strong argument for retaining some form of tax on gifts alongside an annual wealth tax. However, the interactions between these taxes would again give rise to additional complexity, and it is notable that many of the countries that operate an annual wealth tax – such as Switzerland and Norway – do not have any significant gifts or IHT.

The tax threshold and overall progressivity of the tax schedule has a significant impact on incentives and opportunities to fragment wealth. 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. In contrast, under a tax schedule featuring a low threshold and flat rate, the opportunity to gift may be limited by the smaller number of individuals whose own wealth places them below the threshold. On the other hand, as we explain in the context of liquidity and administrative costs, other design considerations pull in the opposite direction and so are likely to rule out this solution.

The residence test

We recommend that under an annual wealth tax, residence in the tax year of assessment should be used as the connecting factor, as defined by the Statutory Residence Test. We again reject

[164] Given the IHT and CGT exemptions for spousal transfers there would be no significant barriers to this form of fragmentation in most cases.
[165] Advani and Tarrant (2020) find that taxation affects the *timing* of these gifts, but that tax incentives to fragment are far from fully exploited. In part this comes from a desire to maintain control over one's assets until death (Kopczuk, 2007).
[166] Finance Act 1986, Section 102 and Schedule 20.

domicile for the reasons explained by Chamberlain (2020). This leaves two main issues to consider. First, at what point should new arrivals to the UK become liable to an annual wealth tax? Second, what should be the tax consequences of ceasing to be UK resident?

For new arrivals, there is no objection in principle to applying the wealth tax immediately after taking up tax residence, because they are only paying tax on an annual basis (like income tax). Taxing someone at 40% IHT on their worldwide wealth just because they were unlucky enough to die in the UK shortly after their arrival is a very different proposition from applying an annual wealth tax at a much lower rate. Hence, Switzerland and Norway tax new arrivals on their worldwide wealth immediately. However, **there is still the problem of administrative costs and the burden of disclosure,** particularly where the individual is only coming to the UK for a relatively short time. These factors could act as a disincentive to move to the UK. France and Spain operate limited exemptions for a period of up to five years after arrival.

The following main options for taxing new arrivals are discussed in Chamberlain (2020):

(1) Charge wealth tax immediately on worldwide wealth the same as for all other UK residents, in which case full disclosure and valuations would be required.[167]
(2) Charge wealth tax immediately on worldwide wealth but initially at a lower rate that would increase over a phased period of years.
(3) Charge a lump sum ('forfeit') irrespective of wealth, up to a maximum number of years after which wealth tax would apply as usual.[168]
(4) Charge wealth tax on UK assets but exempt foreign assets. This is broadly the approach for foreign domiciliaries under IHT. It was also the French approach for the wealth tax.

The first two options do not resolve the issues of disclosure and administrative burden. The third option does address this problem, but it may be difficult to calibrate an appropriate lump sum charge. The fourth option is somewhat arbitrary and would have the perverse effect of disincentivising investment in UK assets, which not only assists the economy but may encourage the new arrival to put down roots in the UK. Some combination of the second and third options may strike an appropriate balance, but we do not take firm position on this.

Under an annual wealth tax, there would inevitably be some emigration response. In Section 5.1 we discuss the international evidence on the magnitude of such responses and highlight the remaining uncertainties. But in any case, even if a particular individual's decision to emigrate was wholly unrelated to tax, there would still be an issue of the appropriate tax treatment on becoming non-resident. **A balance must be struck between policies aimed at limiting the emigration response and fairness to those who may be leaving for unconnected reasons.** There are again a range of options besides simply exempting individuals from the wealth tax from their first year of non-residence.

The following options to address emigration are discussed in more detail by Chamberlain (2020):

(1) A 'forwards tail' could operate so that a recent emigrant would continue to be assessed annually to the wealth tax for a period of years after departure.

[167] If an individual became UK resident midway through the tax year a 'split year' approach could be adopted to apportion the liability to wealth tax.
[168] The issue of elections into and out of this type of arrangement would need to be considered carefully.

(2) An 'exit tax' could operate so that upon departure, the emigrant was assessed for wealth tax at some multiple of the normal rate, but this liability could be paid in instalments over a number of years, as for a one-off wealth tax.[169]
(3) Individuals could continue to be taxed based on citizenship as the connecting factor. This is the approach taken in the US for personal taxation.

Again, we do not reach any firm view on which of these options – if any – would be appropriate under an annual wealth tax. **Although policies such as exit taxes could limit rates of emigration, this margin of response could never be prevented entirely**. It is also important to bear in mind that any measures taken to limit emigration through restrictive (or even punitive) charges on exit would also have a disincentive effect on immigration so may well not be desirable overall.

Trusts and non-residents

In the Appendix we consider the tax treatment of trusts and non-residents under both a one-off and annual wealth tax, drawing on earlier work by Chamberlain (2020). Most of our recommendations are the same for both types of wealth tax and are summarised above in Section 4. However, there are some additional complexities under an annual wealth tax that do not arise for a one-off tax. We conclude that wealth tax should be imposed on a trust where the settlor was UK resident when funding it, where the trust has UK real estate, or in certain circumstances where beneficiaries are UK resident. Our conclusions on the tax treatment of non-residents with respect to UK-sited assets are not materially different from the position under a one-off wealth tax, although imposing tax on UK-sited assets other than real estate may be even more difficult under an annual wealth tax.

5.2.2 Taxable assets: what is taxed?

As we have seen in relation to a one-off wealth tax, exempting particular assets from the tax base can result in horizontal and vertical unfairness, loss of revenue and opportunities for avoidance. **For an annual wealth tax, it is even more important that there is a comprehensive tax base with few exemptions,** because as we explain below, exempting or privileging specific types of asset can lead to very large behavioural responses. On the other hand, **an annual wealth tax is likely to lead to even more pressure for exemptions than under a one-off tax**. This is due partly to the increased administrative challenges of valuation and liquidity, and partly as a result of (often misguided) attempts to incentivise certain activities through the tax system. Together these issues create a dangerous combination that makes successful implementation of an annual wealth tax difficult.

The **pressures to exempt particular assets under an annual wealth tax are clearly evident from international experience.** As Perret (2020) summarises, they result from several factors, including: 'social concerns (e.g. pension assets, primary residences), liquidity issues (e.g. farm assets), supporting entrepreneurship and investment (e.g. business assets), avoiding valuation difficulties (e.g. artwork, jewellery, shares in unlisted businesses), and preserving countries' cultural heritage (e.g. artwork, antiques)'. Moreover, these pressures tend to increase over time, such that 'countries with wealth taxes have often gradually expanded tax exemptions and reliefs, which have in turn further limited their revenue potential and progressivity.' This results

[169] Other variants of exit tax not directly related with the individual's wealth could alternatively be applied: for example, emigrants might be made liable to CGT based on a deemed disposal of their assets on departure. If this option was adopted, it would seem fair also to entitle new arrivals to a rebasing of their assets.

in a downward spiral, that frequently has ended in constitutional challenges to legitimacy and/or loss of public support.[170]

From a revenue and efficiency perspective, exempting assets under an annual wealth tax can be disastrous because it tends to induce widespread 'asset-shifting'. Reviewing the empirical literature, Advani and Tarrant (2020) conclude that 'Findings of portfolio composition responses to tax incentives are common, not only in the wealth tax literature, focused on taxes on the stock of wealth … but also with regards to estate taxation … and capital income taxation'. For example, a recent study by Durán-Cabré, Esteller-Moré, and Mas-Montserrat (2019), estimates that in Spain, a 1pp increase in the average wealth tax rate resulted in an 18.1pp increase in the share of exempt assets over a 4-year period, implying a total revenue loss equivalent to 2.6 times the forecasted annual wealth tax revenue. Indeed, in this study, the overall change in taxable wealth appears to have been driven almost entirely by asset composition responses.

Exempting assets could facilitate avoidance using debt. Although taking out a loan does not on its own reduce an individual's tax liability, it can do so if the proceeds are then invested in tax exempt or tax privileged assets. However, as Chamberlain (2020) points out, this type of strategy can be countered through legislation, as demonstrated in the context of IHT. In particular, any debt taken out to purchase an exempt asset would not be deductible against chargeable assets. Other anti-avoidance provisions could also ensure that debt would only be deductible if incurred for full consideration and that debt taken out by non-residents would only be deductible if taken out to improve or purchase UK chargeable property. There could also be anti-avoidance rules to deal with borrowing from connected persons who are not subject to the wealth tax.

5.2.3 Valuation

Valuation is significantly more problematic for an annual wealth tax than for a one-off wealth tax. This is for two reasons. First, there are relatively fixed costs of valuation per assessment (although there may be some cost savings from repeat valuations), which means that valuation costs as a proportion of revenue are higher for an annual than a one-off wealth tax. Second, the time taken to conduct and agree valuations might be longer than one year, which would have a compounding effect on administrative cost and complexity under an annual wealth tax. Although we discussed in the context of a one-off wealth tax a package of measures to reduce valuation costs whilst maintaining rigorous standards of valuation, there will always be an irreducible minimum of hard-to-value assets.

There are broadly three possible solutions to the challenge of high-volume valuations of hard-to-value assets under an annual wealth tax: (1) less frequent valuations; (2) tolerate less accuracy; and (3) departures from OMV.

The international evidence shows that other countries have tended to favour departures from OMV, for example through the use of formula valuations of businesses (Chamberlain, 2020). However, these approaches are liable to generate distortions by asset type and opportunities for avoidance. For example, in the context of the US estate tax, Poterba and Weisbenner (2003) showed that individuals switched toward hard-to-value asset classes whose values are easier to manipulate for tax purposes. Additionally, there is evidence that they produce horizontal

[170] In countries that have abolished wealth tax, such as Ireland, Germany and France, the varying tax burdens imposed on different assets was a major constitutional problem and a significant factor in prompting abolition.

inequity that results in resentment and undermines public support (Perret 2020). For all of these reasons, **we conclude that departure from OMV is not a viable option.**

It is therefore important to consider the other two alternatives:

Less frequent valuations. One variant of this approach would be to 'certify' values for hard-to-value assets for a period longer than one year, either holding the value fixed in subsequent years or adjusting it by reference to an index for that asset class. However, this effectively amounts to a departure from OMV for the subsequent years, with all of the difficulties outlined above. In particular, it would generate a distortion in investment decisions between hard-to-value and other types of asset and could lead to gaming whereby taxpayers would certify only the assets that they expected to outperform the relevant index whilst requesting full valuations for the others.

Another variant of this option would be to undertake the entire assessment process less often, for example operating a triennial or even decennial charge. There is some UK precedent for this approach under the IHT trusts regime. This would alleviate valuation difficulties compared with annual assessment, but it would also exacerbate opportunities for tax planning and avoidance, because individuals could anticipate the next assessment and optimise their tax planning around that date. This problem is likely to be worse where the period between assessments is longer because strategies that could not be repeated every year might be doable over longer cycles.

Tolerate less accuracy. We have already discussed in the context of a one-off wealth tax that it would not be desirable to require professional valuations for relatively low-value items, including those that are hard-to-value. However, under an annual wealth tax there may be pressure to raise the threshold at which professional valuations are expected, or to develop other mechanisms that could relieve the need for a high degree of accuracy, such as banding – which we discuss in Section 4.2.3. However, there are limits on the extent to which banding can assist here, both because wider bands imply greater vertical unfairness and because it does not resolve the problem of valuing assets where the potential for disagreement over the value is large, such that plausible values span multiple bands.

Overall, we conclude that neither of these design compromises is really satisfactory. It follows that the volume of hard valuations is an important factor in determining the feasibility of an annual wealth tax. In our view, the only way to make valuation work satisfactorily for an annual wealth tax is under two conditions: (1) a threshold that is high enough to reduce the volume of taxpayers to the point where the number of valuations required each year is manageable from the perspective of both HMRC and the capacity of professional valuers; and (2) a rate that is high enough that the tax collected from each taxpayer is a sufficient multiple of the (mostly fixed) costs of valuation to make these costs worthwhile. We discuss the implications of these two constraints on feasible rates and thresholds in Section 4.4.

An additional difficulty under an annual wealth tax compared with a one-off tax concerns opportunities to manipulate values using minority discounts. A minority discount reflects the fact that (for example) a 45% shareholding is not worth 45% of the whole because it is not a controlling share. Under an annual wealth tax, individuals would have an incentive to fragment their shareholding via connected parties to obtain large minority discounts. In relation to a one-off wealth tax, we have already recommended in Section 4.2.1 that related parties such as spouses should have their shareholdings combined for the purpose of valuation (to prevent any opportunity for forestalling). The question is whether, under an annual wealth tax, such provisions ought to be extended to cover a wider class of connected persons i.e. spouses, siblings, ancestors or lineal descendants or trustees of a trust set up by them.

It would be difficult to deal with this problem fairly. For example, consider Peter and Jain who are married and have three adult children. Peter owns 100% of his profitable private trading company. In response to the annual wealth tax, Peter gives 10% to each of his three children and 22% to his wife, leaving him with 48%. For IHT valuation purposes, Peter and Jain are each treated as owning a controlling shareholding under the related property provisions. However, the children would each be treated as owning a heavily discounted 10% shareholding when measuring their wealth for tax purposes.[171]

Although under an annual wealth tax the legislation could provide for aggregation of the children's shareholdings so that they are valued on a pro rata basis (i.e. 10% of the whole company without any discount for minority shareholdings) this may not get to a very fair result. In the real world, the children economically do only own a 10% shareholding each which may have little real value. If they later fall out with each other after Peter has died, they may object strongly to having their shareholdings aggregated for valuation purposes, particularly if one of them later has to leave and is forced to sell at a substantial minority discount. **On the other hand, not aggregating connected party shareholdings risks significant behavioural response**.[172]

5.2.4 Liquidity

In Section 4.2.4 above, we explained the nature of concerns about liquidity, reported evidence on the scale of illiquidity under a wealth tax levied at an annual-equivalent tax rate of 1%, and recommended three solutions to alleviate liquidity concerns. Our focus in that section was a one-off wealth tax. However, most of the same key considerations arise under an annual wealth tax, and our analysis on the scale of illiquidity would also apply in the first year of such a tax, assuming the same annual-equivalent tax rate. Two out of the three solutions that we recommended, in particular those concerning deferral of the tax attributable to pension wealth and the availability of a statutory deferral scheme could similarly be adopted.

However, **there are three respects in which liquidity issues are harder to resolve under an annual wealth tax than a one-off tax, even at equivalent rates**.

- First, **there is likely to be a compounding effect of the liquidity problem over time.** For this reason, spreading payments of an annual wealth tax over multiple years is not really a viable option unless there is some prospect that an individual's liquidity will improve in future.

- Second, **it is likely that it would be harder for an individual to borrow to cover the payments** of an annual wealth tax where this tax is indefinite, compared with where it is one-off.

- Finally, **taxpayers may find it harder to plan their payments** since these depend on future reassessments.

One countervailing advantage of an annual wealth tax in terms of liquidity is that reassessment would go some way to alleviating the concerns that can arise from simultaneous reductions in a taxpayer's wealth and income. Under a one-off wealth tax, the wealth tax liability is fixed by reference to the taxpayer's wealth at the original assessment date. Even though subsequent

[171] This assumes that there is no shareholders' agreement in existence that requires a different basis of valuation on an OMV.

[172] In some cases a shareholders' agreement will require that on departure a child is entitled to be paid the value of their shares as a percentage of the whole rather than as a standalone minority shareholding which will make life easier and justifies a prorated view for annual wealth tax purposes.

falls in wealth may also result in falls in income that would exacerbate liquidity problems, they do not relieve the wealth tax liability. By contrast, under an annual wealth tax, the liability would at least be reduced in subsequent years. However, taxpayers would still face the risk of falls in income that were not directly connected with wealth, such as unemployment.

The challenge of resolving liquidity issues under an annual wealth tax could lead to special reliefs or exemptions being applied to affected groups. Loutzenhiser and Mann (2020) highlight the particularly severe problems of liquidity for farms and Clark and Fu (2020) highlight their poor profitability compared to capital values. Another problem category could be start-ups that are potentially profitable but are loss making in early years. Where the shareholder is independently wealthy this matters less as he has other resources to fund the wealth tax but it has been regarded as a problem in Switzerland and Norway. The other main category discussed in Section 4.2.4 is main homes, where most countries have ended up offering some discount on the true OMV.[173]

The need to accommodate these groups would put additional pressure on the efficacy of the Statutory Deferral Scheme that we propose in Section 4.2.4. **It would be better to relax the criteria for deferral, and to allow longer deferrals, rather than exempt particular assets altogether**. Liquidity concerns could obviously be alleviated by lowering the tax rate, although this then comes into conflict with the need for higher rates to offset the administrative costs of valuation. A higher threshold would reduce liquidity constraints without increasing administrative costs, but it could not alleviate them altogether. Consequently, unless deferral provisions were extended, an annual wealth tax may require acceptance of the need to force some additional borrowing and/or asset sales.

5.2.5 Administration

Most of the key issues for the administration of an annual wealth tax are the same as for a one-off tax. These are discussed in detail in Section 4.3 However, in several respects, administration under an annual wealth tax would be harder than for a one-off wealth tax. We address the key differences here.

Differences from a one-off tax

First, **an annual wealth tax may suffer from various 'knock-on' or 'compounding' effects unless the administrative process for each assessment could be concluded for the vast majority of taxpayers within one year**. This means that some of the practical solutions that we recommended for a one-off wealth tax, such as spreading audits and professional valuations over a longer time period, would not be feasible. As Troup, Barnett and Bullock (2020) highlight, 'While it would clearly be possible to apply a provisional/correction model over a period longer than a year, the risk with such a model is that last year's dispute is not corrected before next year's return is filed'. In particular, such problems risk creating pressure for more 'rough-and-ready' solutions to valuation difficulties, which, as we note in Section 5.2.3, is not desirable.

Second, **there would be some offsetting benefits from repeat assessments**, such that the administrative costs on both taxpayers and government agencies would clearly be less in subsequent years compared with the first year of assessment. On the taxpayer side, some assets

[173] France offers a 30% tax allowance and Spain an allowance up to €300 000 per individual. Even Switzerland taxes primary residences at only 60% of market value and Norway values primary residences at a mere 25% of their estimated market value. Primary residences were exempt under the Irish wealth tax.

would not require fresh professional valuations every year where it was clear that their value had not significantly changed.[174] It ought to be possible to allow lighter reporting requirements – for example using a shorter form – where there had been no material changes from previous years (Troup, Barnett and Bullock 2020). The tax gap and administrative costs to government may both reduce over time as HMRC honed its compliance procedures. Investment in IT systems and infrastructure for third-party reporting would be easier to justify for an annual wealth tax of indefinite duration.

Third, **if the design challenges under an annual wealth tax resulted in additional exemptions or reliefs, this could significantly increase administrative complexity.** For example, if there were more special cases to accommodate, it would become harder to provide a simple online interface for taxpayers, or to pre-populate tax returns. Moreover, because an annual wealth tax opens up more channels of behavioural response than a one-off tax, there would likely be more opportunities for legal avoidance schemes, which would also increase administrative costs on HMRC. As Troup, Barnett and Bullock (2020) note, 'Our personal professional experience is that [wealth taxpayers] will be more likely to test the legal limitations of any [wealth tax] and (legal) tax planning or avoidance than the wider population'.[175] Consequently, it would be necessary carefully to monitor and investigate behavioural responses on an ongoing basis.[176]

Under an annual wealth tax, there would be a stronger case for integrating filing into the existing self-assessment (SA) system, especially if there was any element of interaction with income tax or CGT.177. About 11 million people file a SA return each year and a disproportionate number of wealthy taxpayers are likely to be in this group.[178] Where the taxpayer does not file a SA return, a wealth tax return could be filed separately with payments matched to existing income tax dates. The downside of integration is that it would increase the burden on HMRC resourcing at already busy times of the year. Spain uses a separate filing date for its annual wealth tax, whereas Switzerland files the wealth tax return as part of the income tax assessment. Evidently then, different models are possible.

Administrative costs

The costs of administering an annual wealth tax are broadly similar to those for a one-off wealth tax, but the key differences are that: (i) fixed set up costs no longer need to be accounted for annually, and (ii) rates are likely to be substantially lower, which mechanically increases administrative costs as a proportion of revenue.

In relation to administrative ***costs on the tax authority***, the key difference is that the fixed setup costs can now be spread over a longer time horizon. If they were all accounted for in year one,

[174] For example, hard-to-value tangible property such as collectibles and artwork. However, repeated assessment is less likely to significantly reduce the costs of valuing business assets, where the 'compounding' effect is more likely to dominate.
[175] Although they go on to say '…However, they also value a settled life and seek respectability by complying rigidly with the law and are less likely to seek deliberately to evade tax'.
[176] For example, in relation to the fragmentation of assets and use of debt.
[177] Under an annual wealth tax, it would be harder to have separate and long running enquiry periods under different systems.
[178] The SA tax return is generally required for all self-employed persons who earn more than £1,000 net, as well as others with untaxed income such as rent, regular income from a trust, or foreign income. Filing is also required for all those with annual gross income of £100,000 or more (even employees for whom all tax was deducted through PAYE), all company directors and anyone with chargeable capital gains over the annual exemption.

the level of costs looks the same as those in Section 4.3.4. At the other extreme, the costs could be smoothed out over some indefinite future.

In terms of administrative efficiency, Table 9 shows the share of tax revenue that would be spent only on the administrative costs *if the target revenue were £10 billion*. At this target revenue, tax rates are much lower than previously considered under a one-off wealth tax.

As described previously, the cost as a share of revenue depends on the tax rate. The lower the tax rate, the lower the revenue raised at a given threshold, and therefore the proportionally higher the cost as a share of revenue. Studying tax rates that target £10 billion, **a wealth tax starting above a threshold of £1 million would cost less than 5p for every pound raised; to reach an efficiency of 1p for every pound, the threshold would need to be raised to £2 million.** At tax thresholds below this, keeping the same revenue target (£10 billion) implies lowering the tax rate but taxing more people, and this increases substantially the administrative costs.

TABLE 9: ADMINISTRATIVE COSTS FOR AN ANNUAL WEALTH TAX

Threshold (£)	Rate	Taxpayers ('000)	Administrative cost (£m): to taxpayer	one-off to govt	annual to govt	Administrative cost (% tax revenue): to taxpayer	annual to govt	Effective tax rate (%)
Flat taxes								
10,000,000	1.12%	22	723	579	3	7.29%	0.03%	1.20%
5,000,000	0.91%	83	1382	579	12	13.95%	0.13%	1.03%
2,000,000	0.57%	626	2432	579	104	24.45%	1.05%	0.71%
1,000,000	0.31%	3,004	4366	579	454	43.78%	4.56%	0.45%
500,000	0.18%	8,246	7226	579	1,156	71.11%	11.37%	0.30%
250,000	0.12%	15,537	9693	579	2,080	97.75%	20.98%	0.23%

Source: Advani, Hughson and Tarrant (2020), Authors' calculations.

In relation to administrative ***costs on taxpayers***, the costs of valuation become much more sizeable relative to the amount of revenue raised. At a threshold of £250,000, the total cost of valuation is as large as the total amount of revenue raised (Table 9).

These costs can be thought of as increasing the effective tax rate on individuals. The right-hand column of Table 9 shows the effective tax rate after accounting for valuation costs for individuals. At low thresholds these rates still appear to be relatively small, but the large share made up by administrative costs is important. This administrative cost is pure social waste: costs the government is imposing on individuals, but which do not get captured as revenue by government. Only at relatively high thresholds do these administrative costs begin to fall.

The largest component of administrative costs for taxpayers comes from the need to value private businesses. This explains why most countries adopt some formula-based approach to valuation, rather than having businesses valued individually in a bespoke way. **For an annual wealth tax to become administratively feasible at lower thresholds, there needs to be an effective way of reducing the costs of providing open market valuations of hard-to-value assets.**

5.3 Delivery

Pope and Tetlow (2020) emphasise that the delivery of an annual wealth tax would look quite different from a one-off wealth tax, because instead of the 'back to front' process under a one-off tax, the policy development would follow a more conventional budget timetable.[179] This difference has implications for both the consultation process and timescale, which we elaborate below. In other respects, many of the key issues are the same. We have already indicated the considerable resources required for a one-off wealth tax and clearly a similar level would be required for an annual wealth tax, although it could be introduced with less speed and secrecy.[180] All of the same points on good policy implementation apply here as to the one-off wealth tax.

5.3.1 Consultation

Whilst some consultation would be advisable for an annual wealth tax, it also carries risks. The international evidence indicates that where wealth taxes have 'failed' abroad, this has been at least in part due to poor design choices that resulted from lobbying of special interest groups (Perret, 2020; Clark et al., 2020). In relation to the 1974 Green Paper on an annual wealth tax, archival research by Glennerster (2012) reports that almost immediately 'opposition from external interests began to emerge. Representations were made to the Treasury by the National Farmers' Union, various bodies representing the owners of country houses, small businesses, the City, and the Bank of England'.

The challenge would be to build public support and utilise relevant technical input, without allowing the consultation process to provide excessive opportunity for lobbying. Otherwise, the risk is that the original policy intent becomes distorted and whilst each special pleading may have some justification, taken together they risk fatally undermining the tax base and facilitating avoidance. Pope and Tetlow (2020) suggest that Treasury officials may need to adopt more active approaches to public consultation of the sort seen by the Office of Tax Simplification to elicit a broader range of responses from a wider swathe of the population. This could have a countervailing effect on the influences of special interest groups.

We have also identified several areas where further data and research is required. In particular, **the ONS and HMRC should invest in a booster sample of high wealth individuals for the Wealth and Assets Survey, along the lines of the German SOEP-P**.[181] This would allow more detailed analysis of the asset composition of the very wealthy, which is important for several aspects of design under an annual wealth tax, but would also help with modelling and analysis of other tax policies too. Moreover, we have identified gaps in currently available information on the administrative costs of valuation (by professional valuers and at scale), on which additional evidence would be useful.

5.3.2 Timescale

Pope and Tetlow (2020) estimate that a 'comprehensive' policy development process for an annual wealth tax could take a total of four years from inception to full operation. They point out that this timescale may not be consistent with the UK's five-year electoral cycles, under which governments find it easier to pass major tax reforms early in the parliament. We think that this timescale could be reduced somewhat, particularly if the government had been elected on a manifesto of introducing an annual wealth tax, which would shortcut the aspects of the consultation process aimed at 'pitch-rolling'. However, the experience of the Labour

---

[179] See further HM Treasury (2017), 'The new budget timetable and the tax policy making process'.
[180] Although there is a risk that with less urgency it may be harder to secure government resources and keep up the momentum for delivery.
[181] The German Socio-Economic Panel (SOEP) integrated a special sample in which individuals with high assets were overrepresented. Findings from the survey are reported by Schröder et al. (2020).

government in 1974 (that was elected with such a commitment) shows that this would still not be easy (Glennerster, 2012).

Another reason to be more optimistic than Pope and Tetlow about the total timescale delivering an annual wealth tax, is that this Commission has already undertaken much of the initial ground-clearing and evidence generation that would usually be required at the start of the internal policymaking process. Arguably what Pope and Tetlow identify as 'Stage 1 – Considering Options', has already been completed, and at least part of Stage 2 - Honing the Preferred Option'. This may save up to 24 months. We do acknowledge that further, more detailed work is still required, but this Commission should provide policymakers with a head-start.

As with a one-off wealth tax, Pope and Tetlow estimate that the timetable for drafting legislation is still likely to be at least nine months (on top of the consultation process) given the resource constraints of the Office for Parliamentary Counsel. There would then need to be further technical consultation on the Finance Bill itself. We agree with this estimate, particularly in view of the fact that an annual wealth tax is likely to be more complicated to draft than a one-off wealth tax, in various respects. For example, there will be a greater need to consider interactions with other taxes to establish streamlined procedures for regular valuation and reporting. The need to counter avoidance would also complicate the administrative procedures as well as the legislation.

6. Conclusions and recommendations

Wealth taxes have not seriously been considered in the UK for nearly fifty years. It has taken a crisis on the scale of COVID-19 to prompt a rethink. When this Commission was launched in July 2020, we aspired in our initial report:

> '…ultimately to decide whether or not a wealth tax should be implemented in the UK, and how. At this stage we remain open-minded: both on whether a wealth tax would be desirable in principle, and whether it would be feasible in practice. We are troubled that many people feel sure they already know the answer to these questions, despite the lack of a robust evidence base, in the UK or elsewhere. Before we reach our conclusions, we recognise that a detailed, rigorous and wide-ranging study is required.'[182]

That study has now been completed (although there is always more to learn) and we feel equipped to give our answer. Our conclusions and recommendations are summarised below. We hope that they will prompt renewed debate – and action – on the taxation of wealth in the UK.

6.1 One-off wealth tax

- **We conclude that a well-designed one-off wealth tax would:**
    - **Raise significant revenue in a fair and efficient way**
    - **Be very difficult to avoid**
    - **Work in practice without excessive administrative cost**

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. The tax would be fairer and more economically efficient than alternative tax rises. It could be targeted at those with the most ability to pay based on their wealth and would be very difficult to avoid. The administrative costs on taxpayers and the government would be small relative to the revenue raised.

- **We conclude that in order to achieve these objectives, a one-off wealth tax must:**
    - **Be credibly one-off and not forestalled**
    - **Apply to all residents (including 'non-doms') and recent emigrants**
    - **Have a comprehensive tax base including all assets except low-value items**
    - **Value assets at their open market value (OMV)**
    - **Allow for deferral of payment where the taxpayer is liquidity constrained**
    - **Avoid special exemptions and reliefs**

[182] Advani, Chamberlain and Summers (2020).

A one-off wealth tax must have a compelling justification such as the national crisis created by COVID-19, so that the public can trust that it will be one-off. To prevent avoidance through forestalling, the tax must not be pre-announced. It must cover all assets (net of debt) including main homes, pensions and business assets, as well as other savings and investments. Valuation must be on an open market basis. Taxpayers should be allowed to defer payment in respect of pension wealth, and in other limited circumstances where they are liquidity constrained. The tax must apply to anyone who lives in or has recently left the UK, and there must be no special exemptions or reliefs.

- **We recommend that if the government chooses to raise taxes, it should implement a one-off wealth tax in preference to increasing taxes on work or spending**

We do not take any position on when (if at all) the government should raise taxes. However, if the government does choose to raise taxes as a response to the crisis, a well-designed one-off wealth tax would be a better way of raising significant revenue than increasing taxes on work or spending. In particular, it would be more economically efficient and harder to avoid than alternative ways of taxing the better off, and it would also be fairer than raising taxes on ordinary workers or consumers. A one-off wealth tax would be an exceptional response to a specific crisis, not a substitute for long-term reforms to existing taxes on wealth, which should be done as well.

6.2 Annual wealth tax

- **We recommend that instead of an annual wealth tax, the government should reform existing taxes on wealth. This means major structural reforms, not minor tinkering**

The UK already has several ways of taxing people with wealth on a recurring basis. However, these existing taxes on wealth are seriously defective, making them inefficient, inequitable and too easy to avoid. We recommend that there should be major structural reforms to existing taxes on wealth including IHT, CGT and council tax, going far beyond the minor tinkering that has characterised the tax treatment of wealth over recent decades. An annual wealth tax would be a poor second best to undertaking these reforms, because it would be less economically efficient and more costly to administer.

- **We conclude 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**

The public have expressed a concern that 'the gap between rich and poor is too large'. We do not take any position on whether the government should use tax policy actively to reduce wealth inequality. But *if* this was the government's aim, there are limits to the extent of redistribution that can be achieved using existing taxes on wealth, even after effective reforms. An annual wealth tax could be justified on this conditional basis, but proponents should be clear that this is their aim and that it may be difficult to achieve.

- **An annual wealth tax would be much more difficult to deliver effectively than a one-off wealth tax**

An annual wealth tax would have higher administrative costs relative to revenue than a one-off tax, which means that it is currently not feasible at low thresholds. We reject solutions that would compromise the comprehensiveness of the tax base or depart from OMV, since these would undermine the fairness and efficiency of the tax. Unlike a one-off wealth tax, an annual wealth tax could also face significant behavioural responses. At very high levels of wealth, the extent of these responses remains uncertain. Some responses could be mitigated by careful design, but others would be more difficult to resolve.

6.3 Further evidence

- **We recommend that the ONS and HMRC should collect better data on high wealth individuals to help inform policymaking**

The modelling on which this report relies is based on the best data sources currently available on wealth in the UK. But our analysis has been constrained by a lack of reliable data on individuals with total wealth above £10 million. With respect to this group, the static element of our revenue estimates is conservative and should be considered a lower bound. The ONS and HMRC should invest in a booster sample for the Wealth and Assets Survey covering high wealth individuals, along the lines of the German 'SOEP-P' subsample added to the Socio-Economic Panel (SOEP). This additional evidence is important to inform tax policymaking generally, not only a wealth tax specifically.

- **We recommend that HMRC should receive additional resourcing to undertake policy analysis, particularly relating to the taxation of high wealth individuals**

It is crucial to invest heavily in policy design and planning, and easy to underestimate the resources required to do this effectively. We have benefited greatly from dialogue with HMRC analyst and policy teams during the preparation of this report. In recent years, there has been high-profile investment in the operational side of HMRC's engagement with high wealth individuals, through the Wealthy unit. We recommend that commensurate commitment and resourcing must also be devoted to improving HMRC's capability to undertake detailed data and policy analysis in relation to this group.

There is also a need for investment in wider analytical functions within HMRC. Unusually for a tax authority, HMRC does not currently have records on the value of individual properties. This makes the design and implementation of a wealth tax harder, but it also limits the scope for better policy design in other ways, for example performing a revaluation for council tax. Investment in HMRC capacity is essential not only for the taxation of high wealth individuals, but for the implementation of any number of other reforms that might be desired.

References

Adam, S., and Miller, H. (2020). The Economics of a Wealth Tax. *Wealth Tax Commission Evidence Paper*, 3.

Adam, S., and Waters, T. (2018). *Options for raising taxes*. Institute for Government. Available: https://www.ifs.org.uk/uploads/publications/budgets/gb2018/GB5.pdf.

Advani, A. (forthcoming). Who does and doesn't pay taxes? *Fiscal Studies*

Advani, A., Bangham, G., and Leslie, J. (2020). The UK's wealth distribution and characteristics of high-wealth households. *Wealth Tax Commission Evidence Paper*, 1.

Advani, A., and Summers, A. (2020a). Capital Gains and UK Inequality. CAGE Working Paper No. 465.

Advani, A., and Summers, A. (2020b). Capital Gains and UK Inequality: New evidence from tax microdata. CAGE Policy Briefing 19.

Advani, A., Elming, W., and Shaw, J. (2019). *The Dynamic Effects of Tax Audits*. CAGE Working Paper No. 414.

Advani, A., Hughson, H., and Tarrant, H. (2020). Revenue and distributional modelling for a wealth tax. *Wealth Tax Commission Evidence Paper, 13.*

Advani, A., Koenig, F., Pessina, L., and Summers, A. (2020). *Importing Inequality: Immigration and the Top 1 Percent*. IZA Discussion Paper No. 13731.

Advani, A., and Tarrant, H. (2020). Behavioural responses to a wealth tax. *Wealth Tax Commission Evidence Paper, 5*.

All-Party Parliamentary Group for Inheritance and Intergenerational Fairness (APPG IIF). *Reform of Inheritance Tax*. London: Society of Trust and Estate Practitioners (STEP). Available: https://www.step.org/system/files/media/files/2020-05/STEPReform_of_inheritance_tax_report_012020.pdf.

Attanasio, O., and Wakefield, M. (2010). The effects on consumption and saving of taxing asset returns. *Dimensions of tax design: the Mirrlees review*, 675-736.

Bach, S. (2011). Lastenausgleich aus heutiger Sicht: Renaissance der allgemeinen Vermögensbesteuerung?. *Vierteljahrshefte zur Wirtschaftsforschung*. 80(4), 123-146.

Bjørneby, M., Markussen, S., and Røed, K. (2020). *Does the Wealth Tax Kill Jobs?* IZA Discussion Paper No. 13766.

Blake, D., and Orszag, M. (1999). Annual Estimates of Personal Wealth Holdings in the United Kingdom since 1948. Pension Institute Discussion Paper PI-9608. Available: https://www.pensions-institute.org/wp-content/uploads/2019/workingpapers/wp9608.pdf.

Bilicka, K. (2019). Comparing UK Tax Returns of Foreign Multinationals to Matched Domestic Firms. *American Economic Review*, 109(8), 2921-2953.

Browne, J., and Phillips, D. (2017). *Estimating the responsiveness of top incomes to tax: a summary of three new papers*. Institute for Fiscal Studies, Briefing Note BN214.

Brulhart, M., Gruber, J., Krapf, M., and Schmidheiny, K. (2019). *Behavioral Responses to Wealth Taxes: Evidence from Switzerland*. CEPR discussion paper, 14054.

Burgherr, D. (2020). The costs of administering a wealth tax. *Wealth Tax Commission Background Paper, 126*.

Carroll, M. B. (1946). Outline of War Profit Taxes and Capital Levies in Liberated European Countries. *Tax Law Review*, 1, 409-429.

Chamberlain, E. (2020). Defining the tax base. *Wealth Tax Commission Evidence Paper, 8*.

Chartered Institute of Taxation (2017). *Professional Conduct in Relation to Taxation*. Available: https://www.tax.org.uk/sites/default/files/200601%20Professional_Conduct_in_Relation_to_Taxation_2019.pdf.

Chennells, L. (1997). The Windfall Tax. *Fiscal Studies*, 18(3), 279-291.

Chetty, R., Friedman, J., Leth-Petersen, S., Heien Nielsen, T., and Olse, T. (2014). Active vs. Passive Decisions and Crowd-Out in Retirement Savings Accounts: Evidence from Denmark. *Quarterly Journal of Economics*, 129(3), 1141-1219.

Clark, E., and Fu, S. (2020). Agricultural Property. *Wealth Tax Commission Background Paper, 145*.

Clark, E., Gronwald, V., Guerrero-Fernandez, R., and Ramirez-Casillas, E. (2020). The Political Economy of the Abolition of Wealth Taxes in the OECD. *Wealth Tax Commission Background Paper, 123*.

Corlett, A. (2018). *Passing on: Options for reforming inheritance taxation.* (Intergenerational Commission Report) London: Resolution Foundation.

Corlett, A., and Gardiner, L. (2018). *Home affairs: Options for reforming property taxation*. (Intergenerational Commission Report) London: Resolution Foundation.

Crossley, T., Phillips, D., and Wakefield, M. (2009). *Value added tax*. The IFS Green Budget 2009. Available: https://www.ifs.org.uk/budgets/gb2009/09chap10.pdf.

Daly, S., and Loutzenhiser, G. (2020). Valuation. *Wealth Tax Commission Evidence Paper, 9*.

Devereaux, M., Freedman, J., and Vella, J. (2012). *Tax Avoidance*. Oxford University Centre for Business Taxation.

Du Rietz, G., and Henrekson, M. (2014). *Swedish Wealth Taxation, 1911-2007*. IFN Working Paper No. 1000.

Dupas, M. (2020). Wealth Tax – France 1. *Wealth Tax Commission Background Paper, 134*.

Durán-Cabré, J.M., Esteller-Moré, A., and Mas-Montserrat, M. (2019). *Behavioural Responses to the (Re)Introduction of Wealth Taxes. Evidence From Spain*. IEB Working Paper, N. 2019/04.

Eckert, J-B., and Aebi, L. (2020). Wealth Taxation in Switzerland. *Wealth Tax Commission Background Paper, 133*.

Eiser, D. (2020). Wealth Taxes and Devolution. *Wealth Tax Commission Background Paper, 120*.

Eurostat, E. C. European system of accounts ESA 2010. *Official Journal of the European Union* 174 (2013): 56.

Fagereng, A., Holm, M. B., Moll, B., and Natvik, G. (2019). *Saving behavior across the wealth distribution: The importance of capital gains*. National Bureau of Economic Research. Working Paper No. 26588.

Feldstein, M. (1999). Tax Avoidance and the Deadweight Loss of the Income Tax. Review of Economics and Statistics, 81(4), 674-680, Available: https://www.mitpressjournals.org/doi/abs/10.1162/003465399558391.

Förster, M., Llena-Nozal, A., and Nafilyan, V. (2014). *Trends in Top Incomes and their Taxation in OECD Countries*. OECD Social, Employment and Migration Working Papers, No. 159.

Fraser, I. (2020). *An autumn stamp duty holiday will paralyse the property market*. Available: https://www.telegraph.co.uk/property/uk/autumn-stamp-duty-holiday-will-paralyse-property-market/.

Glennerster, H. (2012). Why was a wealth tax for the UK abandoned?: lessons for the policy process and tackling wealth inequality. *Journal of Social Policy*, 41 (2), 233-249.

Glover, B., and Seaford, C. (Demos). (2020). *A People's Budget: How the Public Would Raise Taxes*. London: Demos. Available: https://demos.co.uk/wp-content/uploads/2020/09/APeoples-Budget-Sept-2020-v5.pdf.

Guvenen, F., Kambourov, G., Kuruscu, B., Ocampo, S., and Chen, D. (2019). *Use It or Lose It: Efficiency Gains from Wealth Taxation*. Available: https://fguvenendotcom.files.wordpress.com/2019/10/gkkoc-2019-web-october22.pdf.

Hansson, A. (2008). A Wealth Tax and Entrepreneurial Activity. *The Journal of Entrepreneurship*, 17(2), 139-156.

Herlin-Giret, C. (2017). L'état et la richesse. Redéfinir l'impôt sur la fortune pour sauver le capital. *Gouvernement et action publique*, 6(3), 37–60.

HM Treasury (2017). *The new Budget timetable and the tax policy making process*. Available: https://www.gov.uk/government/publications/the-new-budget-timetable-and-the-tax-policy-making-process.

HM Treasury (2020). *Budget 2020: Delivering on Our Promises to the British People*. Available: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871799/Budget_2020_Web_Accessible_Complete.pdf.

HM Treasury Select Committee (2020). *Oral Evidence: Tax after Coronavirus, HC 664.* Available: https://committees.parliament.uk/oralevidence/788/html/

HMRC (2005) Tax Bulletin 76, April 2005. Available: https://webarchive.nationalarchives.gov.uk/20110617040423/http://www.hmrc.gov.uk///bulletins/tb76.htm.

HMRC (2019). HM Revenue and Customs Annual Report and Accounts 2018-19. Available: https://www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2018to2019/overview-of-hmrcs-annual-report-and-accounts-2018-to-2019 [accessed on 19 October 2020].

HMRC (2020a). Direct effects of illustrative tax changes. Available: https://www.gov.uk/government/statistics/direct-effects-of-illustrative-tax-changes.

HMRC (2020b). *Measuring tax gaps 2020 edition: Tax gap estimates for 2018 to 2019*. Available: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/907122/Measuring_tax_gaps_2020_edition.pdf.

HMSO (1974). *Wealth Tax* (Green Paper, Cmnd.5704).

Hughson, H. (2020). Banding: implications and complications. *Wealth Tax Commission Background Paper, 147*.

King, M., and Leape, J. (1998). Wealth and Portfolio Composition: Theory and Evidence. *Journal of Public Economics*, 69, 155-193.

Kleven, H., Knudsen, M., Kreiner, C., Pedersen, S., and Saez, E. (2011). Unwilling or Unable to Cheat? Evidence from a Tax Audit Experiment in Denmark. *Econometrica*, 79(3), 651-692.

Kleven, H., Landais, C., Muñoz, M., and Stantcheva, S. (2020). Taxation and Migration: Evidence and Policy Implications. *Journal of Economic Perspectives*, 34 (2), 119-42.

Kopczuk, W. (2007). Bequest and Tax Planning: Evidence from Estate Tax Returns. *The Quarterly Journal of Economics*, 122(4), 1801-1854.

Kopczuk, W. (2013). Taxation of intergenerational transfers of wealth. In *Handbook of Public Economics*, 5, 329-390. Elsevier.

Loutzenhiser, G., and Mann, L. (2020). Liquidity Issues: Solutions for the Asset-Rich, Cash-Poor. *Wealth Tax Commission Evidence Paper, 10*.

Mackie, I. (2020). Valuation of Commercial and Residential Real Estate Assets. *Wealth Tax Commission Background Paper, 143*.

Mandler, P. (1997). *The Fall and Rise of the Stately Home*. London and New Haven: Yale University Press.

Mas Montserrat, M., and Mas Montserrat, D. (2019). *Detecting Tax Evasion through Wealth Tax Returns*. Working Paper.

McCaffery, E. J. (2017). Taking wealth seriously. *Tax Law Review*, 70(2), 305–376.

Meade, J., Ironside, D., Avery Jones, J., Bell, L., Flemming, J., Kay, J.A., King, M., Macdonald, M., Sandford, C., Whittington, G., and Willis, J. (1978). *The Structure and Reform of Direct Taxation*. London: George Allen & Unwin.

Miller, H., Pope, T., and Smith, K. (2019). *Intertemporal income shifting and the taxation of owner managed businesses*. IFS Working Paper WP19/25. Available: https://www.ifs.org.uk/publications/14475.

Mirrlees, J., Adam, S., Besley, T., Blundell, R., Bond, S., Chote, R., Gammie, M., Johnson, P., Myles, G., and Poterba, J. (2010). *Tax by design: The Mirrlees Review*. Oxford University Press.

Mirrlees, J., Adam, S., Besley, T., Blundell, R., Bond, S., Chote, R., Gammie, M., Johnson, P., Myles, G. and Poterba, J.M. eds. (2011). *Mirrlees Review, Volume 2: Tax by Design*. Oxford: Oxford University Press.

Mulheirn, I. (2020). Wealth dynamics. *Wealth Tax Commission Background Paper, 122*.

Muñoz, M. (2020). *Do European Top Earners React to Labour Taxation Through Migration?* Working Paper.

Nanda, S., and Parkes, H. (2019). *Just tax: Reforming the taxation of income from wealth and work*. London: Institute for Public Policy Research.

Nelder, J. (2020). Valuation of unincorporated businesses (sole traders and partnerships) and shareholdings in private companies. *Wealth Tax Commission Background Paper, 141*.

Norris, E., Kidson, M., Bouchal, P., and Rutter, J. (2014). *Doing them Justice: Lessons from four cases of policy implementation*. Available: https://www.instituteforgovernment.org.uk/sites/default/files/publications/Policy%20Implementation%20case%20studies%20report%20-%20final.pdf.

Norris, E., and Rutter, J. (2016). *Learning the lessons from Universal Credit: Briefing paper*. Institute for Government. Available: https://www.instituteforgovernment.org.uk/sites/default/files/publications/5087%20IFG%20-%20Universal%20Credit%20-%20Briefing%20Paper%20WEB%20AW_0.pdf

O'Donovan, N. (2020). One-off wealth taxes. *Wealth Tax Commission Evidence Paper, 7*.

OECD (2018). *The Role and Design of Net Wealth Taxes*. Tax Policy Studies, OECD Publishing, Paris.

Office for Budget Responsibility (2020). *Economic and fiscal outlook: November 2020*. Available: http://cdn.obr.uk/CCS1020397650-001_OBR-November2020-EFO-v2-Web-accessible.pdf.

Office for National Statistics (2020). Total wealth in Great Britain: April 2016 to March 2018. Available: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2016tomarch2018

Office of Tax Simplification (2018). *Inheritance Tax Review – first report: Overview of the tax and dealing with administration*. London: Office of Tax Simplification.

Office of Tax Simplification (2019). *Inheritance Tax Review – second report: Simplifying the design of Inheritance Tax*. London: Office of Tax Simplification.

Office of Tax Simplification (2020). *Capital Gains Tax Review – first report: Simplifying by design.* London: Office of Tax Simplification.

Pentelow, L. (2020). UK tax valuation and potential Wealth Tax (WT). *Wealth Tax Commission Background Paper, 146*.

Perrett, S. (2020). Why did other wealth taxes fail and is this time different? *Wealth Tax Commission Evidence Paper, 6*.

Pope, T., and Tetlow, G. (2020). Delivering a wealth tax: the role of government. *Wealth Tax Commission Evidence Paper, 12*.

Poterba, J. M., and Samwick, A. A. (2003). Taxation and household portfolio composition: US evidence from the 1980s and 1990s. *Journal of Public Economics*, 87, 5-38.

Poterba, J., and Weisbenner, S. (2003). Inter-asset Differences in Effective Estate-Tax Burdens. *American Economic Review*, 93(2), 360-365.

Ramm, A., and Eames C. (2020). The valuation of pension wealth for the purpose of a UK wealth tax. *Wealth Tax Commission Background Paper, 142*.

Ring, M. (2020). *Wealth Taxation and Household Saving: Evidence from Assessment Discontinuities in Norway*. Working Paper.

Robson, P. (1959). Capital Levies in Western Europe After the Second World War. *The Review of Economic Studies*, 27(1), 23-43.

Rothbard, M. (1982). *The Ethics of Liberty*.

Rowlingson, K., Sood, A., and Tu, T. (2020). Public Attitudes to a Wealth Tax. *Wealth Tax Commission Evidence Paper, 2*.

Russell-Prywata, L. (2020). Beneficial Ownership and Wealth Taxation: an assessment of the availability and utility of beneficial ownership data on companies in the administration and enforcement of a UK wealth tax. *Wealth Tax Commission Background Paper, 124.*

Ryan, D. (2020). Valuation of businesses and intellectual property assets. *Wealth Tax Commission Background Paper, 144*.

Saez, E., and Stantcheva, S. (2018). A Simpler Theory of Optimal Capital Taxation. *Journal of Public Economics*,162, 120-142.

Sandford, C., and Morrissey, O. (1985). *The Irish Wealth Tax: A Case Study in Economics and Politics*. The Economic and Social Research Institute, Paper 123.

Sandford, C., Willis, J. and Ironside, D., (1975). *An Annual Wealth Tax*. Heinemann Educational Publishers.

Sasse, T., and Norris, E. (2019). *Moving On: The costs of high staff turnover in the civil service.* Institute for Government. Available: https://www.instituteforgovernment.org.uk/sites/default/files/publications/IfG_staff_turnover_WEB.pdf.

Schröder, C., Bartels, C., Göbler, K., Grabka, M., and König, J. (2020). *Millionaires under the Microscope: Data Gap on Top Wealth Holders Closed; Wealth Concentration Higher than Presumed*. German Institute for Economic Research. Available: https://www.diw.de/documents/publikationen/73/diw_01.c.794207.de/dwr-20-30.pdf.

Shakespeare, S. (2015). *Voters in all parties think inheritance tax unfair.* (YouGov Poll). Available: https://yougov.co.uk/topics/politics/articles-reports/2015/03/19/inheritancetax-most-unfair.

Shavell, H. (1948). Postwar taxation in Japan. *Journal of Political Economy*, 56(2), 124 137.

Lefebvre, M., Lehmann, E., and Sicsic, M. (2020). Capital incomes are more elastic than labor income. Working Paper.

Smith, M. (2020). *Few Britons willing to pay more tax to dig public finances out of coronavirus hole*. Available: https://yougov.co.uk/topics/politics/articles-reports/2020/07/08/few-britons-willing-pay-more-tax-dig-public-financ.

Stephens, M., and Ward-Batts, J. (2004). The impact of separate taxation on the intra household allocation of assets: evidence from the UK. *Journal of Public Economics*, 88, 1989-2007.

Straub, L., and Werning, I., (2020). Positive long run capital taxation: Chamley-Judd revisited. *American Economic Review*, 110(1), 86-119.

Suari-Andreu, E., van Ooijen, R., Alessie, R., and Angelini, V. (2019). *Giving with a warm hand: Evidence on estate planning and bequests*. Netspar Industry Series: Design Paper 120.

Summers, A. (2020). Ways of taxing wealth: alternatives and interactions. *Wealth Tax Commission Evidence Paper, 4*.

Tennant, A (2020). The Valuation of Chattels. *Wealth Tax Commission Background Paper, 140*.

Thatcher, M. (1981). *The 1981 Budget*. Available: https://www.margaretthatcher.org/document/110696.

The Irish Times (2014). A temporary pensions levy, now permanent? Available: https://www.irishtimes.com/news/social-affairs/a-temporary-pensions-levy-now-permanent-1.1945442.

The Pension Regulators (2020). Transfer Values. Available: https://www.thepensionsregulator.gov.uk/en/document-library/regulatory-guidance/transfer-values

Tirard, J-M. (2020). Wealth Taxes in France (France 2). *Wealth Tax Commission Background Paper, 135*.

Troup, E., Barnett, J., and Bullock, K. (2020). The Administration of a Wealth Tax. *Wealth Tax Commission Evidence Paper, 11*.

Waldenström, D. (2018). *Inheritance and Wealth Taxation in Sweden*. ifo DICE Report, 16.

YouGov (2019). *YouGov / Tax Justice / Oxfam Survey Results*. Available: https://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/efh8rxg2ed/TaxJustice_WealthTax_w.pdf.

Appendix A: Taxation of trusts and non-residents

A1. Trusts

The implications of trusts in the context of a wealth tax are discussed in detail in Chamberlain (2020).[183] Here we provide a very brief review of the key issues and then make recommendations on how trusts should be taxed for wealth tax purposes. Although our recommended approach is broadly similar under both a one-off and an annual wealth tax, there are some differences and additional challenges under an annual wealth tax, which we discuss separately below.

A1.1 Overview of issues

In taxing trusts there are a number of different connecting factors that could be used to determine liability. These include:

(1) Domicile of the settlor. The settlor is the person who makes the gift into trust. Domicile is broadly where someone's permanent home is.[184]
(2) Residence of the settlor. If the residence of the settlor is used as the connecting factor, the question is whether the settlor's status should be judged at the date when the trust was first funded or at the relevant assessment date or either or both dates.
(3) Situs (i.e. legal location) of assets in the trust.
(4) Residence and domicile of each beneficiary of the trust in the relevant year of assessment. But should all beneficiaries be included, or only those who are presently able to benefit ignoring the residence status of those beneficiaries who can benefit only on someone else's death?
(5) Residence of the trust. Determined by reference to the residence of the trustees – this is easily manipulated as non-resident professional trustees can be appointed.

Additionally, the following factors may also be relevant in determining the appropriate connecting factor for those associated with the trust:

(6) Whether the settlor/spouse/minor child can benefit from the trust.
(7) Whether a beneficiary is entitled to receive income or capital at some particular date or whether this is solely at the trustees' discretion.

The general tax principle often stated is that no tax advantage or disadvantage should follow from holding assets in trust rather than giving them to an individual. Trusts should be 'neutral' for tax purposes.[185] However, this is easier to state than achieve. Neutral in comparison to what? Should a gift to a trust be compared with an outright gift to an individual or with the donor retaining outright ownership?

When you make a gift to an individual that person has full ownership and control. By contrast, a gift to a trust confers control on the trustees – who may or may not be beneficiaries, the settlor or independent persons. Such trustees hold the property, but do not have full ownership rights

[183] For background, see Chamberlain (2020) Appendix A, which summarises how trusts work and their current treatment for UK tax purposes.
[184] See further Chamberlain (2020), Appendix B.
[185] The 1974 Green Paper had a rather simplistic approach to this issue, which is described in Chamberlain (2020).

as they hold the property for others. A further complication is that there are three players in any trust scenario: the settlor, the beneficiaries and the trustees. The various powers, benefits and controls they may each retain or receive will vary considerably from trust to trust, meaning that the question of what connecting factors to use can become quite complicated. Should it be the residence of trustees, settlor, beneficiaries or of all three?

As explained in Chamberlain (2020), trusts are therefore fundamentally different from outright gifts. For example, if X gives away shares to the children, the children own and control an asset which can be valued. The shares may produce little income or have restricted rights on sale or liquidation, but all these points can be taken into consideration when valuing what the children own. Even if X gives away the house to the children and X continues to live in it, the house still belongs to the children and can be taxed on them if they are UK resident.

By contrast, if X gives shares away to a discretionary trust and excludes himself from benefit or dies, it is not clear who should be taxed and on what basis. If X cannot benefit or control the trustees, why should X be taxed apart from the fact that X chose to make the gift in this way in the first place? Similarly, if X as settlor is UK resident but is excluded and no UK resident beneficiary receives any income, capital or other benefit from the trust fund, why should they be taxed on it?

In fact, it seems improbable that an outright gift and a gift into trust should be taxed in the same way or that the tax treatment could be neutral between them. They are different animals and one is not comparing like with like.

Some countries with a wealth tax such as France, Spain and to a lesser extent Switzerland, tend to tax the settlor to wealth tax on the value of the trust assets. If the settlor is resident there, then wealth tax is paid on all the assets by the settlor. Otherwise wealth tax may not arise at all.[186] However, these countries do not typically use trusts as a means of ownership. Other ways of splitting control and benefits are used instead, such as usufructs and foundations (and it should be remembered that these jurisdictions have forced heirship rules that operate on succession in quite different ways to the UK). It is hard to discern any set of principles elsewhere that could be useful for the taxation of trusts in the UK given that trusts are used much more widely here (and usufructs and foundations correspondingly less). Moreover, the property law regimes of these countries, including freedom of testamentary succession, are quite different.

A1.2 Connecting factors

Under either a one-off or annual wealth tax, we conclude that trust residence should not be a connecting factor in determining liability. Nor should the domicile of the settlor or beneficiaries be relevant.[187] The relevant connecting factors should be (a) the situs of the assets and (b) the residence of the beneficiaries and settlor.

In relation to situs of assets, the debate is whether, in relation to trusts that have no other connection to the UK, a wealth tax should be imposed on:

(1) all UK assets if directly owned by the trustees
(2) all UK assets directly or indirectly owned by the trustees e.g. art, land or UK shares owned directly by the trustees or through foreign companies or

[186] Further details are set out in the Wealth Tax Commission foreign countries background papers. Note the problems that Norway had in relation to a discretionary trust and wealth tax.
[187] For the reasons why we consider that domicile of settlor/beneficiaries and residence of trustees are not good connecting factors see Chamberlain (2020), and Appendix B to that paper.

(3) only UK real estate and UK enveloped real estate (i.e. real estate held through any foreign or UK companies).

The arguments in relation to trusts are the same as those set out in Part B for non-resident individuals, and for the same reasons vary somewhat depending on whether the tax is one-off or annual.

In relation to the residence of settlor and beneficiaries, we conclude that slightly different criteria should operate between one-off and annual wealth taxes reflecting the different principles and efficiency arguments of each and also taking into account likely behavioural responses. A one-off tax is looking backwards to wealth at a specified date in the past. An annual wealth tax is much more focused on the wealth actually enjoyed by UK resident beneficiaries from year to year and therefore should be better tailored to their specific circumstances as they change over time.

A1.3 One-off wealth tax

In this section, when we refer to 'WT Resident', we mean an individual who was resident in the UK under the residence test that we recommend in Section 4.2.1 of the main report. Broadly, this concept of residence is based on the number of tax years preceding the assessment date in which the individual was UK resident under the Statutory Residence Test (the 'backwards tail').

A1.3.1 Position where the settlor is WT Resident

Generally, if the settlor is alive and WT Resident, any trust should be liable to a one-off wealth tax on its entire trust fund. This is so regardless of whether the trust is revocable or irrevocable, whether or not the settlor can benefit, and wherever the trustees are resident. In all cases the liability attributable to the trust fund would fall primarily on the trustees and only secondarily on the settlor (which broadly follows the IHT position).

Within this group, the tax treatment of trusts under a wealth tax can be broken down further according to whether or not the settlor (and/or their spouse or civil partner) can benefit:

(a) Where the settlor can benefit, wealth can be aggregated to the settlor's wealth and taxed at the settlor's rates although liability would be first discharged out of the trust fund with secondary liability on the settlor. If the settlor was not WT Resident but the spouse or civil partner is and either of them can benefit or could be added as beneficiaries, then the trust would still pay the wealth tax. This broadly follows the position of the income tax settlement provisions.

(b) If the settlor cannot benefit in any circumstances but they are still alive and WT Resident in the year of assessment of the one-off wealth tax, then the trust fund would be subject to wealth tax. There is less need to worry about avoidance through fragmentation on a one-off wealth tax, but it would still be fairer to ensure that the exempt threshold given to the individual is divided between the total number of trusts set up by the settlor which are still in existence at the one-off valuation date. That prevents a settlor with multiple trusts having the benefit of the trust wealth being taxed at a lower rate. The overall tax liability would be prorated between the trusts. If the trusts were non-UK resident and enforcement proved difficult, the settlor would be secondarily liable (as occurs at present for IHT even where the settlor cannot benefit).

(c) Finally, in relation to a trust where settlor and spouse are excluded and the beneficiaries are the settlor's minor children and the settlor is WT Resident, the wealth should be aggregated to the settlor's wealth and taxed at the settlor's rates although primary liability is again discharged out of the trust fund.

Consequently, even where the settlor set up the trust many years ago when non-WT Resident, if the settlor is WT Resident in the tax year of the relevant assessment date, the one-off wealth tax is charged on the trust assets. This is on the basis that a one-off wealth tax is looking at those with connections to the UK on the assessment date. This approach seems fairer than including trusts where the settlor may have been UK resident when setting up the trust (even if he is now dead or non-UK resident, and all beneficiaries are non-UK resident and there is no further connection to the UK). The trust might well already be subject to IHT if the settlor was UK domiciled when he set up the trust. To subject the trust to a one-off wealth tax when it no longer has any connection to the UK through its settlor, beneficiaries or assets may seem rather arbitrary.

A1.3.2 Settlor not WT Resident

In the case of all other trusts (i.e. where the settlor is not WT Resident), the trustees would pay the one-off wealth tax only if either:

(a) The trustees held any UK-sited assets that are chargeable on non-residents (for example residential property – see Part B)

(b) a beneficiary was WT Resident.

For example, where there is one interest in possession beneficiary (i.e. entitled to receive all the trust income) who was WT Resident, the entire trust fund would be subject to wealth tax. This is similar to how the IHT rules operated before 2006 (and on will trusts now).

In relation to discretionary beneficiaries, wealth tax would be levied looking only at beneficiaries who can actually benefit now, not future contingent beneficiaries. For example, if a US trust with US assets set up by a US settlor is stated to be for X and Y (both US resident) as the trustees determine and then to such of their children as are living at their deaths as the trustees determine, then no wealth tax would be payable even if X and Y have some UK resident children. Such children may never take if they die before X and Y and moreover may not benefit for many years.

But if the trust was held for X and Y as the trustees decide and X was UK resident at the one-off wealth tax date, then half the trust fund is subject to wealth tax.

Again, the liability would be discharged from the trust fund although a UK resident beneficiary would be secondarily liable on the tax attributable to their share.

Finally, if a trust is liable to wealth tax only because of a settlor or beneficiary who is WT Resident but has only been UK resident for a limited period, their liability should be reduced pro-rata in the same way as for individuals (see further Section 4.2.1 of the main report).

A1.4 Annual wealth tax

In this section, when we refer to 'WT Resident', we mean an individual who was resident in the UK under the residence test that we recommend in Section 5.2.1 of the main report. Broadly, this concept of residence is based on residence under the Statutory Residence Test, but with a 'forwards tail' for recent emigrants.

We recommend that broadly the same design is adopted for annual as well as one-off wealth taxes where the settlor is resident in any particular tax year or the trust holds UK-sited assets that are chargeable on non-residents. However, the position is more difficult than a one-off wealth tax in two circumstances:

First, where the settlor was UK resident when he funded the trust but subsequently emigrated or has died and there are no remaining UK resident beneficiaries or UK assets, should annual wealth tax operate even though a one-off wealth tax would not be imposed in these circumstances?

We favour imposing wealth tax on a trust where the settlor was UK resident when funding the trust (as would broadly occur for IHT if the settlor was UK domiciled). If annual wealth tax is felt to be unfair by the trustees the gift can always be completed and future annual wealth tax avoided by the trustees advancing the trust assets to the non-resident beneficiaries. That option is not available for a one-off wealth tax.[188] Thus the trustees of a dead settlor who was UK resident when he set up the trust would still be liable to annual wealth tax in the same way that the trust is liable to IHT, but would not be subject to one-off wealth tax if the trust had no UK resident beneficiaries or UK real estate.

Second, where the settlor is UK resident and they or their spouse or minor child can benefit in any particular year then wealth tax should be imposed on the same basis as the one-off tax. However, we leave open the position where the settlor was not UK resident when funding the trust but later becomes UK resident but cannot benefit, and no beneficiaries are UK resident. In these circumstances it may be unreasonable to impose annual wealth tax, especially where the settlor may have little control or involvement in the trust anymore.

Third, where some present beneficiaries are UK resident but the settlor was not resident when funding the trust, we have noted that a proportion of the trust would be subject to a one-off wealth tax on the basis that broadly this represents their present access to taxable wealth. This is a rough and ready result. The position is slightly different for an annual wealth tax:

In relation to an interest in possession trust with a UK resident life tenant, the whole trust fund could be subject to annual wealth tax.

In relation to discretionary trusts, the position is different. If the trustees advance capital or confer benefits on the UK resident discretionary beneficiary the latter will in future pay wealth tax on that capital accordingly. But it may be less fair to tax a trust set up by a non-resident settlor who is dead or has always been non-UK resident and where the trust holds no UK assets simply because one out of many discretionary beneficiaries is here for a brief period but receives no benefits during that time; in any event the trustees could presumably exclude that beneficiary while UK resident.

There is certainly an argument that as with one-off wealth tax it may be appropriate to tax the trust by reference to the number of UK resident beneficiaries who could benefit in any relevant

[188] Because a one-off wealth tax operates by reference only to the residence of the settlor and beneficiaries in the year of assessment and preceding years, and the ownership of assets on the assessment date.

year on the basis that if the settlor had given the beneficiaries the money direct then they would have paid wealth tax personally.

The difficulty is that possible benefits under a discretionary trust are not as such rights to wealth at all – the beneficiary may eventually receive nothing. If they do receive something, they will pay wealth tax at that point and therefore the possible unfairness of taxing the trust now by reference to the status of a beneficiary who may receive nothing can be resolved in the future. In short, in relation to an annual wealth tax where the settlor has never been UK tax resident and there is no UK real estate, it may be fairer to impose wealth tax on the trust fund only to the extent that benefits are actually conferred on UK resident beneficiaries (such as use of non-UK houses, any art or soft loans).[189] However, we recognise that this may lead to avoidance and would need further consideration.

Finally, residence of beneficiaries would be assessed on the same basis as operates for individuals more generally in relation to annual wealth tax. Thus, where a beneficiary left the UK after many years of UK residence the trust fund (or a proportion thereof) would still be subject to wealth tax after his departure if a 'forwards tail' was imposed (see further Section 5.2.1 of the main report).

A2. Non-residents (the asset base)

A wealth tax raises the issue of to what extent (if at all) non-residents who own UK 'sited' property should be subject to the tax. Such property may be tangibly located in the UK (such as land or physical items such as artwork), or it could be intangible but nevertheless treated as UK-sited under general law, such as shares in a UK-incorporated company. In practice, UK assets can be owned directly by the individual or indirectly through a foreign company.

A2.1 Approach to non-residents under inheritance tax (IHT) and capital gains tax (CGT)[190]

For IHT purposes, the UK theoretically taxes all UK-sited property even if owned by non-UK domiciled persons, except for some specific exemptions for UK gilts, open ended investment companies (OEICs) and authorised unit trusts (AUTS) in certain circumstances, or under certain treaty provisions. However, in practice, it is relatively easy for a non-domiciled individual to 're-site' their UK property abroad, simply by holding it indirectly via a foreign company (known as 'enveloping'). Until 2017 this strategy worked for all types of UK property, but it is now generally no longer possible in relation to UK residential property, as a result of new rules introduced under Schedule A1 of the Inheritance Tax Act 1984. However, it should be noted that residence is generally irrelevant to IHT – it is principally domicile that determines liability to IHT and, as noted in Chamberlain (2020) Appendix B, a person can be domiciled abroad even if UK resident for some years.

Until recently, the UK did not apply CGT to non-residents in relation to disposals of any UK-sited property. Since 2013 this has changed and CGT has gradually been extended first to residential property (from 2013 in limited certain cases but otherwise from 2015); from 2019 CGT for non-residents to commercial property and even disposals of 'property-rich' vehicles are now subject to tax. Only gains accruing after April 2019 are taxed where the disposal is of companies that hold 75% of their wealth in UK land (measured on a gross basis). Similarly, disposals of

[189] If the trust held UK houses directly or indirectly the trustees would be subject to WT anyway whatever the residence of settlor or beneficiaries.
[190] For a more detailed description see Chamberlain (2020), Appendix B.

commercial property held by non-residents are only taxed on gains accrued from April 2019. Disposals of residential property owned direct by the non-resident individual or trust are only taxed on gains accruing after April 2015.

A2.2 One-off wealth tax

What should be the approach under a one-off wealth tax? Before considering the arguments in relation to particular types of UK-sited asset, two preliminary remarks are required:

First, obviously there is no question of taxing non-residents on their worldwide wealth simply because they own some UK assets: a wealth tax would at most apply to the UK-sited assets held by non-residents.

Second, the tax would need to be assessed at an individual or trust level rather than over each asset separately.

Although applying a flat withholding tax on all UK-sited assets owned by non-residents would be the simplest approach administratively, it would work unfairly on those with only small holdings of UK assets. Instead, non-residents with UK wealth over the threshold would need to file a wealth tax return reporting all of their taxable assets (but not their foreign or other non-taxable assets), so that these could be aggregated and an appropriate allowance and rate applied.

A2.2.1 UK real estate

The case for taxing non-residents on UK real estate of any sort (i.e. including both residential and commercial property) to a one-off or indeed annual wealth tax seems unanswerable. All countries operating a wealth tax do so, presumably because land is a scarce resource; this is in line with the recent CGT changes that apply to both residential and commercial property. Most countries also charge non-residents on enveloped real estate and as there is good precedent for that already in the IHT and CGT legislation. The same could operate for a wealth tax. Debt would be deductible provided it had been taken out to purchase that UK real estate.[191] In terms of enforcement, it is easier to track what land is owned by whom as there is a public register maintained by the Land Registry (although this does not yet have complete coverage) and shortly to be disclosure of ultimate beneficial owner.

A2.2.2 Other UK-sited assets

Most other countries such as Switzerland limit an annual wealth tax for non-residents to real estate or enveloped real estate. This is partly due to the ease with which attempts to tax other forms of property can be avoided (and the difficulties with enforcement), discussed below. But more controversially, a one-off wealth tax could be applied to some or all other UK-sited assets, such as moveable property (artwork etc.) and intangibles including shares in UK-incorporated companies.

There are two main arguments against this, even in relation to a one-off wealth tax:

First, there are some difficulties for HMRC in identifying and enforcing any taxes on indirect ownership other than land. If wealth tax was applied to UK assets held directly by the non-

[191] Some further consideration would be needed to deductibility if the borrowing was from a trust or connected person rather than commercial.

resident but not to UK assets such as art and quoted shares held indirectly this would result in a rather arbitrary distinction. On the other hand, rules that captured all forms of property held via foreign vehicles would not be straightforward to draft or enforce, and there is no existing precedent for this in IHT or CGT. Unless significant progress is made with beneficial ownership registers (see further Russell-Prywata, 2020) it is hard to see how non-resident ownership of some assets – such as art or various intangibles – would realistically be identified by HMRC.

Second, a more expansive asset base would impose significant and arguably disproportionate administrative burdens on non-residents and institutions. Quoted companies are often owned by foreign private equity or investment funds and the latter may be unwilling or unable to identify the non-residents interests in UK shares. Every non-resident with total UK-sited assets above the relevant non-resident threshold would need to file a wealth tax return. We currently have no way of knowing how many taxpayers this would be, because there is no data available at individual level on the amount of UK wealth owned by non-residents. The number of non-resident taxpayers would obviously also depend on the threshold chosen, which need not be the same as for residents.

Ensuring compliance of non-residents once liability has been established is not an insurmountable obstacle because it is already done for IHT and CGT. Nevertheless, the scale of the administrative challenge for HMRC would be larger under a wealth tax because taxpayer volumes would likely be much higher and in reality IHT and CGT are effectively limited mostly to UK real estate owned by foreign domiciliaries or those who hold UK bank accounts or shares directly. Even then, the number of IHT exemptions for non-residents who hold UK gilts, UK authorised unit trusts, OEICs and foreign currency accounts suggests that HMRC do not find it worthwhile policing this area.

Although a one-off wealth tax on non-resident owners of UK-sited assets should in theory not have any disincentive effect on future UK investment (since it would be one-off), in practice the administrative burden may be resented and leave a negative impression regarding the ease of doing business in the UK.

However, there are two arguments in favour of carefully restricted taxation of other UK-sited assets apart from land:

The first concerns UK business competitiveness. Not taxing UK-based businesses owned by non-residents could lead to horizontal inequity and arguments about competitive disadvantage as UK resident business owners would be liable to wealth tax on their UK business while foreign owners would not. If this were thought to pose a major unfairness or economic distortion then it might be possible to have a targeted solution whereby controlling shareholdings in UK unlisted companies held by non-residents would be liable to wealth tax whether owned directly or indirectly. The Persons of Significant Control register maintained by Companies House on the ultimate beneficial owners of UK companies (including non-residents) makes this more feasible to enforce.

The second circumstance concerns non-resident spouses. Where the person owning the UK wealth is non-UK resident but their spouse is UK resident and enjoying UK assets owned by the non-resident (for example art displayed in their London home), it might be fairer to have a rule that taxed such wealth either on the non-resident or aggregated to the UK-resident spouse's other wealth. On the other hand, in the specific case of art, this is very often owned via a foreign company anyway for IHT and other reasons (rather than by the non-resident spouse individually) and the main other asset likely to be enjoyed by the spouse is the house, which would be taxable anyway as UK land. Consequently, it may be that the additional complexity to deal with occasional cases is not worthwhile here.

A2.3 Annual wealth tax

In relation to an annual wealth tax, the same rules on UK real estate (whether held directly or indirectly) should apply as above. The arguments against taxing other UK-sited assets are even stronger than for a one-off wealth tax, for two reasons. First, avoidance through indirect ownership becomes even more problematic to legislate against and enforce where there are repeat assessments and so an incentive to set up new structures after the first assessment date. Second, the administrative hassle for non-residents of filing a wealth tax return each year (and providing values etc.) would create a disincentive for foreign investors. However, as above, there may be a more limited case for taxing controlling shareholdings of unlisted companies owned by non-residents, for reasons of maintaining a level playing field between UK-based private businesses.

Glossary of terms

ATED	Annual tax on enveloped dwellings
CETV	Cash equivalent transfer value
CGT	Capital gains tax
CTT	Capital transfer tax
DB	Defined benefit (pension)
DC	Defined contribution (pension)
HMT	HM Treasury
HMRC	HM Revenue and Customs
IHT	Inheritance tax
NICs	National insurance contributions
ONS	Office for National Statistics
OMV	Open market value
OTS	Office of Tax Simplification
SA	Self Assessment
SOEP	German socio-economic panel
TTP	'Time to pay' scheme
VAT	Value added tax
VOA	Valuation Office Agency