HOUSE OF COMMONS

Treasury Committee

Oral evidence: Tax after coronavirus, HC 664

Wednesday 18 November 2020

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Ms Angela Eagle; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 275 - 353

Witnesses

I: Dr Arun Advani, Assistant Professor, Department of Economics, University of Warwick; Emma Chamberlain OBE, Barrister, Pump Court Tax Chambers; Robert Palmer, Executive Director, Tax Justice UK; Sir Edward Troup, Former First Permanent Secretary, HMRC; and Tim Worstall, Senior Fellow, Adam Smith Institute.

Examination of Witnesses

Witnesses: Dr Arun Advani, Emma Chamberlain, Robert Palmer, Sir Edward Troup and Tim Worstall.

Q275 **Chair:** Good afternoon, and welcome to the Treasury Select Committee and our inquiry into tax after the coronavirus. We are going to be looking specifically at wealth taxes this afternoon. I am very pleased to be joined by a very strong panel, who I am going to ask to introduce themselves.

Dr Advani: I am Dr Arun Advani. I am an assistant professor at the University of Warwick. I am one of the three commissioners for the Wealth Tax Commission.

Emma Chamberlain: I am a barrister at Pump Court Tax Chambers, a visiting professor at Oxford University and I have spent the last six months with Arun on the Wealth Tax Commission, examining the case for and against a wealth tax.

***Robert Palmer*:** I am Robert Palmer. I am the executive director of Tax Justice UK. We are trying to see a fairer and more effective tax system here in the UK.

***Tim Worstall*:** My name is Tim Worstall. I am a senior fellow at the Adam Smith Institute.

***Sir Edward Troup*:** I am Edward Troup. I have had a career in tax policy and administration. I was, until 2017, the chair of HMRC. I am now retired.

Q276 **Chair:** You are going to be asked questions. As members ask questions, they will generally direct them to a specific person or people on the panel. If you are not called in on a particular question and you particularly wish to contribute, please put your hand up and I will endeavour to bring you in at that point.

Perhaps I could open the questions by directing a question to Robert. What are the arguments, as you see them, in favour of wealth taxes? Many would say we already have wealth taxes in the UK. We have tax on income derived from assets, capital gains tax and inheritance tax. Why do we need more wealth-based taxes? What would a wealth tax look like if it was to be effective in the United Kingdom?

***Robert Palmer*:** We are a vastly wealthy country and this is something that we should be proud of, but that wealth is deeply unequally shared. This stifles equality of opportunity and means that we have an economy that in many ways is a dead end for millions of people.

There are two arguments in favour of a wealth tax: the first is to raise revenue, and the second is to tackle inequality. In the long term, as we build back from coronavirus, it looks as though we will have to raise more in tax. That leads to big questions about who should pay. As we all know, coronavirus has not hit equally. The poorest have seen their incomes disappear and end up relying on food banks, while wealthier people with salaries have ended up saving more than they would do usually. If we are thinking about how we raise taxes, taxing those who have wealth and assets is a good starting point.

The second reason for a wealth tax is to tackle inequality. Since the 1970s, wealth has increased from three times the national income to seven times the national income. At the same time, the amount of tax we get from wealth has remained the same. You have people on £100,000 who are often paying higher tax rates than someone on £1 million or £10 million. If you want to tackle inequality and try to raise money from the ultra-wealthy, a wealth tax is one of the few options you have available. Those are the two key reasons: the first is to raise revenue when there is general consensus that we will potentially have to raise more tax in the long term, and the second is as a key way of tackling inequality.

In terms of how you design it, there are other people on this call who are more qualified than I am to talk about that. Basically, a wealth tax is usually seen as an annual charge on someone's net wealth. That is their total assets minus any loans or debts. On top of that, you would have a threshold, the point at which the tax would kick in, and a rate at which you would charge it. I am sure we will come on to more details on how you would design a wealth tax later on in the session.

The final thing I want to say is that I know raising taxes is difficult. We have an ex-senior HMRC person during this session who will tell you that raising taxes of any kind is difficult, but we are facing unprecedented times with coronavirus. A wealth tax would be a fair and effective way of both raising revenue and tackling inequality.

Q277 **Chair:** Of course it depends on the detail, but what sort of number would you be recommending that the Chancellor should raise by way of these additional wealth taxes or the new wealth tax that you might want to see brought in?

***Robert Palmer*:** It depends on your starting point, your principles and how you design the wealth tax. The Wealth Tax Commission is looking at this in more detail and will have the figures. There is no point introducing a wealth tax if you are going to raise a relatively small amount of money, given the administrative costs.

Q278 **Chair:** Are you looking at tens of billions?

***Robert Palmer*:** Yes. For example, from talking to Dr Advani, you could do a one-off wealth tax paid over five years at perhaps 5%. That could raise £250 billion over the course of five years. That is the type of order of magnitude of money that you could potentially raise with a one-off wealth tax.

Q279 **Chair:** £250 billion is a colossal amount of money to raise, even over five years; it is £50 billion a year. What do you see as the behavioural impacts of that? Say the Chancellor did that, apart from the political difficulty of getting it through, what would happen as a consequence to the economy or the wealthier individuals who had those assets? What would be the downsides of doing that?

***Robert Palmer*:** When you introduce any type of new tax, you will see changes in behaviour. That is one of the reasons we would say that you need to make sure that a wealth tax has a relatively broad base. The base is what type of things you are taxing. There would be a temptation to carve out property or pensions or something. I would argue that, if you were going to do a wealth tax, you would want to keep the base fairly broad because otherwise you will end up with people trying to move money and shift money around.

Q280 **Chair:** What level of net assets would you expect for people to start falling within the net for this wealth tax?

***Robert Palmer*:** There are political decisions that you could make about the threshold. There are different options out there. In some European countries, they have a relatively low threshold and a relatively low rate. Switzerland has that type of approach. In Spain, it is the equivalent of £700,000 and a slightly higher rate. In the US, people like Elizabeth Warren are talking about £50 million and much, much higher rates. Something around £1 million or £2 million would make sense. Again, in terms of the really concrete design and the nuts and bolts, the work of the Wealth Tax Commission is the thing to look at, because they really are the experts, bringing together the academics, the economists and the people who actually work with very wealthy people themselves.

As I said, we are in unprecedented times. Raising taxes of any kind is difficult. You can pick off individual taxes and explain exactly why that tax should not be raised but, in the long term, we probably are going to be looking at a Government that are going to be needing to raise taxes. A wealth tax is definitely something the Government should consider as a way of both raising revenue and tackling inequality.

It is also worth pointing out that there are a range of things that you could do. This is not necessarily a short-term thing because it would take time to set up. There are a range of ways in which we could improve our existing taxes on wealth that would also have some of the effects that you are looking for. There is quite a lot of agreement that we have a capital gains tax system that is distortive and allows people to shift money and pay lower rates of tax. There is quite a lot of agreement that our property tax system is broken. You would probably find agreement between me and someone like Tim Worstall on what we should be thinking about to fix our property tax system. There is some agreement that the way in which we tax pensions is problematic. There are a range of options for the Chancellor to look at, but a wealth tax should definitely be on the table because it can both raise money and help with the agenda of levelling up.

Often these types of things are seen as just left-wing, crazy things that should not be examined, but the Conservative manifesto itself has a line of limiting the tax advantages for the wealthiest in society. You could find agreement on a range of options that would potentially include a wealth tax.

Q281 **Chair:** Tim, in terms of what the Chancellor might do, the Chancellor has said that there is not now and never will be a time for a wealth tax. Is that a statement that you would support and, if so, why?

Tim Worstall**:** It is not so much me being against a wealth tax. It is the assembled mass of taxation economists. Wealth taxes are contraindicated in pretty much all academic discussion of taxation. We do not have that many Nobel laureates in economics from the UK, but Sir James Mirrlees gained his Nobel for the study of tax systems. Optimal tax systems was his area. He says that we should not tax wealth; it is a bad thing to tax. We should tax land values. We can tax consumption, incomes and capital incomes, but capital itself, wealth, is just not the right thing to be taxing. Therefore, I would say, no, let us not tax wealth.

Q282 **Chair:** Even if a lot of economists say that, that is fine, but what is the reason for it not being the right thing to do?

Tim Worstall**:** The major reason is something called deadweight costs. Whenever you tax something, you lose some economic activity as a result of having taxed it. This is why we tax smoking, so that people do less of it. This is why we tax congestion in London, so that people do less of it. This is true of any tax and every tax. The mere act of taxation means that you stop some economic activity happening. It is entirely true that the revenue you have raised may then be used to do something lovely and useful, but the tax itself stops something happening. That is called a deadweight cost.

We also know that there are a range of deadweight costs. Different taxes have different deadweight costs, which means that if you tax in this way then we lose more economic activity for the revenue that we raise than if we taxed in this other way. The lowest deadweight costs are land value taxation, so great, we should have land value taxation—Henry George and all that. Then consumption, then income, then capital income, then corporations, then wealth and then, right at the top, is the complete lunacy of something like the financial transactions tax, because that is transactions taxation. We have higher deadweight costs and we lose more from the rest of society by raising money through taxing wealth; therefore, we do not do it.

Q283 **Chair:** That is very clear. Going to Edward, this is Tim's view: this is just a bad way of raising tax. There are other ways of doing it that are less damaging. I wondered whether with your experience at HMRC, particularly around the complexities of some of the ideas that are being discussed here, you could address the question of whether this brings forward a lot of additional complexity to an already complicated tax system.

***Sir Edward Troup*:** First of all, thank you very much for inviting me to this. It is excellent that the Committee is looking not just at this proposal specifically but at tax policy. It is very important. Too much tax policy has been introduced over the years without proper advance scrutiny; once the Chancellor has stood up and said it, it is usually too late. It is excellent that you are doing this. I would encourage you to do this with other bits of taxation and other ideas. That is not to give any view on a wealth tax, per se, but just on the work of the Committee.

A lot has been said about this and I know there are some extreme views at either end. That is not suggesting that Robert and Tim's views are extreme but there are a lot of views on this. You asked the question about complexity. Of course it is complex, but any act of taxation is intrinsically complex because it needs to deal with the millions of citizens out there. The question is not so much whether it is complex but whether its complexity and inefficiency—because all taxes impose some burden on the economy—are made up for or compensated for by the revenue raised or the other objectives that the tax might fulfil?

Robert has put forward some challenging suggestions about the amount of revenue that might be raised. If that were possible, in a sense the complexity and inefficiency could well be justified. I have to say I am sceptical. Spain raises about €1 billion a year with its wealth tax. The case and the justification for the wealth tax and the complexity it would introduce is not justified on revenue-raising grounds. Taxes can and should be introduced on other grounds, either to maintain overall support for the tax system, and the integrity and perceived fairness of the tax system, or to pursue other societal or economic objectives. Very often, taxes that are introduced on that basis are complex. That complexity is the cost you pay.

This would be complex. It would be possible to deliver it but, to respond to Robert's point about raising taxes being difficult, raising tax money can be very easy from an HMRC perspective. Putting up the rate of VAT or, indeed, income tax by 1% is the easiest thing ever for HMRC. It just turns a tap and produces new money with relatively little complexity or difficulty. The question comes back to what you touched on at the beginning, Mel, which is about whether the complexity is worth doing for whatever objectives are claimed for the tax and the amount of money that is raised.

Q284 **Chair:** In a nutshell, one of the arguments against this must surely be that, if you are going to try to assess everybody's net wealth, which is not something that is being done at the moment, that seems to me to be an extraordinarily complicated thing to do, fraught with analytical difficulty, difficulty getting the data and difficulty with appeals and challenges. How does that all work?

Sir Edward Troup**:** I should have disclaimed at the beginning that I am not on the Wealth Tax Commission but I did contribute the paper on tax administration. We already do this for about 25,000 individuals a year when they are dead and pay inheritance tax. It is perfectly possible to scale it. It would be expensive. It would probably cost individuals about 1% of their wealth just to do the assessment. It would require a lot of additional professional support. It would require a lot of HMRC support. It is possible. It would be complex and expensive. There would be a question as to whether the amount of resource put into that from the public and private sector justified whatever you could raise from it.

Q285 **Rushanara Ali:** Good afternoon. What a fascinating set of contributions already. I wanted to pick up on the point made about £200 billion over five years. Of course, if you are on the centre-left, what is not to like? Everyone is saying that taxes are going to have to go up at some point. People are very concerned, especially those in our constituencies who have had 10 years of austerity and no pay rise. They are very concerned that, with the consequences of Covid and the borrowing that is necessary, the books are going to be balanced on the backs of the poorest.

Perhaps I could start with Arun, given your role in the tax commission. Can you talk through precisely what it would take to raise £200 billion over the five-year period that Robert was referring to, and how that could be done without the risks that have been highlighted by Tim and Edward?

Dr Advani: One of the key things here is that, once we say we want a wealth tax, supposing we want a wealth tax, and we have said that meaning a tax on the net wealth that people have in the country—just owning wealth, not based on the income or anything else they have—we still have to decide how exactly you design it. The numbers that Robert was referring to was in the context of having, for example, a one-off wealth tax. A one-off wealth tax would say, "Look, we want to raise a lot of money over a short period of time." If you wanted £200 billion, you could design that as a 4% tax on all of the wealth that people have above the first £500,000 of net wealth they have. If you have a house but you have a mortgage, you take that off the value of your house. That would cover about 7 million people in the country—15% of adults would be covered by something like that. You could say, "Pay that off over five years." That would be 0.8% of their wealth per year. Something like that would raise something like £200 billion.

That is, importantly, saying that you are not giving any discounts for excluding homes or pensions, which are the kinds of things that people sometimes talk about. It is very important, if you are thinking about something like this and you want that kind of level of revenue, that you are not excluding certain assets. Doing that, you are instead loading more tax on to the remaining assets, so people with businesses would be having to pay more tax if you were trying to exclude some of those assets. That is one thing to take into account.

The other thing about a one-off tax relative to an annual tax is it is, in one sense, more straightforward because you will say, "We have set some date. It has happened in the past, so you have no chance to change your behaviour, avoid it and do all the things that one might worry about. We know that 2020 was a bad year for many people, so we will pick a date in 2020 and say that that is the date we have set; the value of your wealth at that point is what we are using. If you are lucky enough that your wealth was high at that point, you are going to be contributing something. If you are unlucky and your wealth was low at that point, fortunately for you, you are not going to be one of the people who is contributing something." It minimises your ability to avoid the tax because you cannot change anything; it is the past. It is measured at some point in time, and you are then being asked over this period in time.

Alternatively, you could design these things as an annual tax. That means you are going to raise the money continuously so you get more money over the longer term in principle. You then have to think carefully about all of the avoidance and mitigation issues, because people will want to respond.

Q286 **Rushanara Ali:** Is there a case for doing it over a longer period of time? The historical arguments have been that this is going to disincentivise the wealth creators. I probably sound like a Thatcherite now, but those are what my opponents to this argument would say. I am very clear that there is probably a case for a wealth tax alongside other taxes because, if we are to believe and accept the arguments that analysts are making, that the tax base will still have to be increased from across the board in society, the issue is how you make sure it is just and generally fits with a levelling-up agenda as opposed to that being just rhetoric, frankly, to win elections. The question is whether it should be over a longer period of time.

Also, how would those of you who are proponents of a wealth tax counter the arguments that have already been made about complexity, deadweight and so on, but also about the wealth creators and a mass exodus of the wealthy in our society to the Cayman Islands or wherever it is that is a haven for them? How do you do that? Perhaps Emma can come in and, Arun, if you could briefly address that if there is anything else you want to add.

Dr Advani: Let me disclaim being a proponent of a wealth tax. The project that we have been doing is studying how you could make it happen if you wanted to. We are not there to say either it is a brilliant idea and we are trying to make you do it or saying you should not.

On that proviso, in terms of bringing the money in over a longer period, certainly you could set whatever the tax rate was at some point in time and allow the payment period to be longer. The key risk with doing that is the longer you let that period be, the more unreasonable in some ways it looks to say, "I am charging you based on the wealth you had in 2020 despite the fact it might have changed quite a lot over the following five or 10 years," if you say it is a 10-year period.

I should say West Germany had a fairly successful one-off wealth tax in the 1950s as a response to the world war. They had a payment period of 30 years. You can do something like that. They also had an extremely high rate for that tax. Doing that obviously creates pressure and people want to revalue.

On this point about the wealth creators, again, this is where the one-off wealth tax does not change your incentives in the future for wealth creation. Clearly an annual wealth tax does, but we should remember that all taxes change behaviour. As much as we should be worried about taxes on wealth damaging incentives to create wealth, taxes on labour damage the incentives for people to work for the wealth creators. Any tax is going to have some response, effectively.

Emma Chamberlain: It is important to distinguish between quite a lot of complexity and administrative problems with an annual wealth tax. I have been persuaded that that is really quite difficult to deliver. In practice, I am doubtful, like Edward is, about whether you could improve inequality or deliver revenue. On the arguments for a one-off wealth tax, although I was very sceptical at the beginning about a one-off wealth tax and quite opposed to it, as Dr Advani knows, I have come round much more to it. I think it could raise a large amount of revenue much more efficiently than many other tax rises, and it could be targeted.

How do we deal with people leaving? Of course, if it is a one-off wealth tax that is retrospective to a past date, that point has been and gone. You would have to be careful, if you have a one-off wealth tax that is retrospective, that you do not tax someone who has only been here a year and they just happen to have arrived in 2020 and leave in 2021. That seems a bit unfair and we are looking in the design of that sort of proposal, if you had a one-off wealth tax, at how you would deal with it.

Robert mentioned the need for a broad base, which I absolutely agree with, but he also talked about a higher threshold. Dr Advani was talking about a £500,000 threshold. If we are going with individual rather than household taxation, which, for design reasons, we are probably going to end up with, that is about £1 million per couple. At that level, you get to £200 billion or £250 billion over five years.

In terms of an annual wealth tax, you could design it and I have set a lot of this out in one of the papers about stopping people leaving. If they do leave, they still have to pay for a period after they have left. All of this is complex and is quite difficult to enforce in some ways. If you are going to introduce a wealth tax, you want to keep it quite simple. I would always prefer a lower threshold because I think it leads to less avoidance. If you have a higher threshold, you will get more avoidance around that.

Q287 **Rushanara Ali:** Sir Edward, you talked about complexity. You also talked about VAT being an easy way, but we all know about the disproportionate effect that has and the unjust nature of it in terms of the impact on the poorest. There is lots of evidence to suggest that it would be better not to have exclusions in VAT. Can you talk through how you think a policy like that might generate £250 billion? What is the sensible way of doing this that addresses some of the concerns that you and Tim have raised? Perhaps Tim can come in afterwards. Is there a way in which we could build a coalition around a proposal that is workable and that people can come to terms with, so that we do not end up in the same situation where poorer people are having to face a tax burden, whether that is through VAT increases, which is the easy option that successive Governments have taken?

If either of you would not accept or think that it is a good idea to have a wealth tax, is there a case for the equivalent of war bonds? I know the returns were low. Are there alternatives that should be looked at in terms of looking at investment rather than tax from members of society, given that the coronavirus crisis is even worse than the global financial crisis?

***Sir Edward Troup*:** There are a lot of questions there, and I will not answer them all. The points I was trying to make are two-fold. First of all, if you want big money, you have to go for the big taxes. The case for this being a big tax has not been made. That is the first point. Therefore, VAT, income tax and NICs will have to be in the mix to raise the sort of money that needs to be raised. That is a political fiscal decision as to whether you are raising tax, raising borrowing or cutting spending.

The second point, which is a combination of political economy, pragmatism and administration, is about how the balance of the tax system looks so that it is perceived as fair and you maintain the support and trust of the population as a whole. That is a political judgment. Do you need taxes specifically on the wealthy in order to sell politically the broad taxes on everybody? There are going to have to be broad taxes if you are going to raise this sort of money.

Q288 **Rushanara Ali:** Would you say that the answer is yes and that you need a mix?

***Sir Edward Troup*:** Yes, you need a mix.

Q289 **Rushanara Ali:** There would, in that equation, need to be something akin to a wealth tax or some form of wealth tax.

***Sir Edward Troup*:** I will not be drawn into what that mix might look like.

Q290 **Rushanara Ali:** Tim, did you want to add any points?

***Tim Worstall*:** Yes, please. I am unconvinced by this argument that we need to be raising taxes. Yes, we have just spent an enormous amount of money on dealing with the coronavirus. Depending on how we unwind or do not unwind QE, we may or may not need more tax revenue in the future. Once the vaccine is around and the economy has returned to normal, I do not see the case for higher taxation and more Government spending because the problem will be behind us. I am not buying that first stage of the argument here that we need to have more taxes.

The other thing that has just struck me is that people are talking about retrospective one-off wealth taxes. One-off wealth taxes are not all that good an idea simply because, once it has happened once, absolutely nobody is ever going to believe that it will not be done again. That is just the way people react to Government doing things. Currently, if the Chancellor stands up and says, "I am raising income tax," then everybody has a choice to say they are going to go to work or they are not going to go to work, that they agree to pay that tax or they do not agree to pay that tax.

A retroactive tax is an appalling idea. It is akin to theft. Roy Jenkins did this in the 1960s. He retroactively imposed a 130% tax at the top end of capital incomes on the previous tax year that was already closed. That is just appalling behaviour. However much Government need the money, that is just not what we should be doing. Tax, just like any other form of law, should be, "It starts today. If you do not agree with it, you can change your behaviour in the future to avoid it and not do the activity, whatever." I regard taxing people today on what they did last year, changing the law on them, as an appalling breach of civil rights.

Chair: Just on that important point about retroactivity, I am not entirely convinced that the suggestion here was that. It seemed to me it was benchmarking of wealth at an earlier date. I see Arun nodding, so I will not bring him in because I have probably made the point he was going to make.

Q291 **Julie Marson:** I would like to turn to other countries' experience of wealth tax. Emma, why have other European countries such as France and Germany abolished, changed or moved away from net wealth taxes in recent years?

Emma Chamberlain: It is all because of the administrative difficulties of an annual wealth tax. In Germany, it was abandoned in 1996-97 because it was found to be unconstitutional because land was very favourably taxed and businesses were not. It was essentially quite discriminatory. France abandoned it, although reintroduction is still very popular, because the revenue it raised was not worth the hassle and, in fact, richer people did not pay it because they had a cap that was prone to avoidance. Spain does not raise much money from it. It has a high threshold. It is not just £700,000; when you add up all the reliefs, it is up to £2 million. It is quite a high rate, so the sort of thing that Robert Palmer is talking about, but that, nevertheless, raises very little revenue because it is prone to avoidance. The design of the wealth taxes excludes assets and they do not work terribly well because the very problems with wealth tax valuation liquidity force people into exemptions.

The one outlier in this is Switzerland. We are different from Switzerland. First of all, Switzerland does not have inheritance tax to any significant degree and it does not really have a capital gains tax. Wealth tax there is sort of substituting for capital gains tax. We have to be very careful comparing ourselves with Switzerland, but it does raise over 3% of tax revenues on an annual wealth tax. It is a low base and a very low threshold, under £500,000, with low rates. The maximum rate is 1% in Geneva and it is cantonally based. Norway also has a wealth tax that raises some revenue but not as much. It is over 1%; that is still very small. Again, that is a low base.

Switzerland operates a comprehensive wealth tax. It does not seem to be that unpopular and it is a low threshold, fairly flat-rate, low-rate tax. That probably has worked best out of all the taxes. The OECD has come down against an annual wealth tax—as I say, the arguments for a one-off wealth tax are very different—because it says there are lots of better ways to tax the wealthy and improve the existing ways we have taxes. In our case, it would obviously be inheritance tax. Rather than introducing a new complexity into the system—another tax—why do we not just focus on the taxes we have and see whether we can improve those?

Q292 **Julie Marson:** Perhaps I can ask the same question of Arun and maybe extend it to ask whether there is any country that has raised the levels of money that are being talked about, in terms of £250 billion over five years. Is there any evidence from overseas where that has been done elsewhere?

Dr Advani: That is a really good point. Emma just gave the example of Switzerland, which has a very successful annual wealth tax. That raises about 1% of GDP, 3% of all tax revenue. If we were thinking of raising £50 billion a year, which is the £250 billion over five years that Robert described, it would be something like 0.5% of GDP. It would be asking for about half as much as Switzerland is asking for, partly because of the different design but you could design it more like the Swiss one if you wanted to get closer to 1%. It is going proportionally, as a share of GDP, to a slightly smaller number than Switzerland is doing.

In terms of an annual wealth tax for the UK, as Emma says and I completely agree, the value of an annual wealth tax starting at £500,000 in the UK seems relatively low. That would look something more like Switzerland, but we have other wealth taxes and it is probably better to fix the others. The important thing is that part of the reason there ends up being pressure from various groups for an annual wealth tax in the UK is that we know that the other taxes we have on wealth do not function very well. The capital gains tax review that came out from the Office of Tax Simplification last week highlighted some of the problems and suggested solutions to some of those.

In a world in which we can fix the existing capital taxes, pressure for an annual wealth tax in the UK will substantially diminish. A lot of the pressure and the case that some people have for it is that, to the extent that we do tax wealth, we do not do it very effectively and efficiently, not even effectively in the sense of what you want to do to the distribution but we do not even do it in a way that is particularly efficient. Designing that better and fixing that is probably the first priority. In a world in which we cannot do that, that is where pressure for an annual wealth tax will grow because people will say, "Look, the existing ones are not working. Let us try something else." Our first best would definitely be to try to fix the existing annual taxes. As Emma says, the case for a one-off tax would be different, but the revenue numbers are similar to Switzerland.

Q293 **Chair:** Arun, can I just pick up on the numbers you used there? Switzerland is raising 3% of its total tax through a wealth tax, if I heard that correctly. If I get that right, £50 billion a year over our total tax take of about £650 billion to £700 billion would seem to be about twice that amount, so something around 7%?

Dr Advani: I said its number is 1% of GDP. Sorry, we are going for a higher number; I forgot which rate we were going for. It is about twice what the Swiss one is going for.

Chair: It is twice, not half.

Dr Advani: It is twice, yes.

Chair: That is quite a difference.

Q294 **Julie Marson:** Is there any example of a one-off wealth tax that has raised even what has been suggested here? Is there any overseas example that we can learn from that would raise that kind of money?

Dr Advani: There are not many examples of countries that have done comprehensive one-off wealth taxes in the recent past. The one-off wealth taxes that were comprehensive were mostly done after the second world war. A group of them were done after the first world war. They were largely seen as fairly unsuccessful. The ones that came in after the second world war were designed slightly differently. France and Germany are the two biggest ones. The German one, as I said, was an extremely high rate. They had a lot of other things they were trying to achieve at the same time and do with that tax. They had a 50% rate paid over 30 years. I do not think anyone is suggesting a number like that for the UK. One did have, still, substantial avoidance, partly because, unlike now where we have better access to third-party reporting on who owns what houses and who has what assets, clearly that was not the case 70 years ago.

In the more recent past, the one-off wealth taxes we have seen have been in countries like Ireland, which had a pensions levy. On Tim's point about whether at that point everybody will think that they are never going to do anything again, we have not seen in Ireland that people have stopped saving in pensions just because there was a one-off pensions levy 10 years ago. Coronavirus is not the sort of thing that Governments face all the time. If there were Government pressure to have a tax once, in circumstances that are obviously unusual, I do not think people would say, "Well, that means they are automatically going to do it all the time." Ireland is the best example of a very recent one, which was done 10 years ago, but it was going for a much smaller scale so they focused on pensions.

***Tim Worstall*:** Just to make almost a snide point, there are examples of unsuccessful taxes where Governments have decided to redistribute wealth. The land redistribution in Zimbabwe did not exactly work out that well. A hunt for successful wealth taxes should also include certain unsuccessful wealth taxes, perhaps. We have rather more examples of where it has not worked or has worked disastrously than we have of things that have succeeded.

Q295 **Julie Marson:** I will just turn back to Arun on overseas examples. Is there any evidence from overseas that the wealth taxes have actually reduced wealth inequality?

Dr Advani: Wealth taxes in other countries have mostly not been designed to try to reduce inequality. They have been there mainly for the purpose of revenue-raising. As we heard for Switzerland, it is there as a substitute for the capital gains tax and inheritance tax. Its aim has not been to reduce inequality. The closest example is one that people have talked about but that obviously has not come in, which is the Elizabeth Warren tax in the US.

The important thing to recognise that makes a wealth tax in some ways harder and easier to work with is the top of the distribution. The hard thing about taxing wealth at the very top, for the very wealthiest, is that typically, for example, you will not need to crystallise capital gains. Capital gains tax is one of the taxes that potentially would be a tax on that capital. If they are not going to need sell their business, say, and at the moment, when they die, the gains are currently wiped out under the capital gains tax regime, there is no redistribution of that in any form. There is nothing that is being taxed on that. That is, again, why there is some pressure for trying to do something to fix the tax system at the moment.

On the other hand, it is hard to use an annual wealth tax to fix that problem, unless you do something like what was proposed in the US. There are still certain problems with that because we know that, as you get wealthier, the return on your wealth is higher. If someone like me goes and says, "I have some thousands of pounds. I am going to put it in a bank account or invest in some shares," the rate of return I will get at the moment is not very high. If, instead, I have many millions of pounds—any private equity person will tell you about this—I can obviously invest in a set of things that require a large amount of money for me to be allowed to invest in them. You hold them fairly illiquidly and the returns are much larger.

With returns being higher at the top, the only way in which you could have a wealth tax that would be redistributive would be to have higher rates at the top. Again, I am not advocating this particularly but, if you were thinking you wanted a wealth tax that was designed for doing redistribution, you would need something more akin to what is being proposed in the US, where you have higher rates at the top, or you would need a capital gains tax and inheritance tax that were successfully getting revenue from people by fixing some of the problems that we know exist in those taxes.

Julie Marson: Thank you very much. It is absolutely fascinating.

Q296 **Anthony Browne:** I want to clarify a couple of points that you made, Arun. Switzerland is the main example of an annual wealth tax that raises any revenue, but you said it has not led to redistribution or reduced inequality. Just to be absolutely clear, are you saying that there is no wealth tax in the world that has been shown to reduce inequality?

Dr Advani: As I say, most wealth taxes around the world have not been designed to try to do that. Even the ones that have had some amount of gradation in terms of having higher rates as you go further up still have not gone to the kinds of rates that are designed to try to reduce inequality. They are always at rates that are lower than the rate of return on wealth. They are not requiring people necessarily to sell all of their wealth, or large parts of their wealth, to do that. That is not what has been designed in the system, so they have not done that. That is not how they were designed. They were not intended to do that.

Q297 **Anthony Browne:** This is a question that needs a yes-or-no answer. The only example you gave of a wealth tax around the world that raises any significant revenue is Switzerland. That raises half of what we would need to raise for the £50 billion a year that was mooted. Obviously it does not have to be that much, but Switzerland does not have much capital gains tax or inheritance tax in the same way, so it is a substitute for that. If we introduced this in the UK, it would not be like Switzerland because we already have capital gains tax, which does not work well, and inheritance tax, which does not work well, and we would have a wealth tax on top of that. It is a completely different scenario.

Dr Advani: Yes, it is a different scenario. That is the difference between a one-off and an annual. I do not think you would want it in an annual if you are fixing the current system. You might want it if you are not fixing the system.

Q298 **Anthony Browne:** I have a couple of questions about the popularity of wealth taxes. I just want to try out a little thesis first. I think it best to ask Edward Troup because he has had experience of administering the whole tax sector. All taxes in the UK, and I suspect most other countries, are based on flow rather than stock, so when money is moved. You earn money and it is income tax; you spend money and it is a transactions tax of some form; or, when you sell something and realise an asset, you pay capital gains tax. There is no tax on the stock of wealth that you have. There is a presumption in the UK, which is not often expressed but is really quite solid, that once you have your money in a bank account or some other asset and you have paid all the tax on the money going in, it is yours and the Government cannot take it away from you. Is that a fair analysis? A wealth tax on your savings and assets would be the first tax that breaches that principle by taxing stock rather than flow.

Sir Edward Troup**:** There are two parts to that. First of all, you are absolutely right that, administratively, collecting tax on a flow of money is much easier than going out and chasing a stock. It is just a practical point that, when money flows through an employer, vendor or a solicitor as part of a property transaction, collecting a chunk of it then is much easier than going out and chasing some passive amount of tax. It is not correct to say that we do not do that. We have council tax. That is a nice one: HMRC does not have anything to do with it; councils have to go around every year.

Q299 **Anthony Browne:** That is supposed to be a payment for services though, rather than a tax on assets.

Sir Edward Troup**:** We could discuss that. As a collection issue, it does not really matter whether it is a payment for services or not. It is the same problem of having to go out and collect an amount of money passively, whether it is for council tax, a television licence or the only real wealth tax we have, which is the annual tax on envelope dwellings. It is practically possible but much more difficult than flow. Of course, I suspect you were not in Parliament at the time, but the Conservative party has an honourable record of trying to collect what was then called the poll tax.

Anthony Browne: I actually went to the anti-poll tax demonstrations.

Sir Edward Troup**:** That was a classic example of trying to collect an amount of money with no regard to ability to pay and no flow. Your basic point for a tax administrator, which is that it is always better to collect from flow than stock, is right.

To the extent that we have taxes on wealth, and we do—we have inheritance tax, capital gains tax and a variety of taxes on transactions in wealth—they are all aimed at flows. Even inheritance tax, in a sense, is a flow tax because it is the passing of assets through the executor to the heir. Your broad point is right. In making that point, you are identifying one of the challenges, which is not an insuperable challenge, of having a wealth tax that has to go back to a passive stock of assets, either on a one-off basis or year after year.

Q300 **Anthony Browne:** My question is about the popularity of a wealth tax. There have been various polls showing it is fairly popular. I have to say that I think "wealth tax" is a bit of a misnomer because wealth is quite a judgmental or value-laden term. It should really be called an asset tax or savings tax. Certainly, if the Treasury brought it in, they would not call it a wealth tax; they would call it an asset tax or some such. Emma, do you have any theories about why opinion polls show wealth taxes are popular?

Emma Chamberlain: Wealth taxes are popular because people think it will not apply to them because they are not wealthy. If you look at some of the papers we have done, one of the evidence papers shows it is popular if you exclude pensions and your family house, which is about two-thirds of the asset base. However, when you start drilling down a bit more to talk to people and work out what they really want, we have to have a grown-up conversation. I do not think it is impossible. Annual wealth taxes are slightly different but going back to a one-off wealth tax, which is an important distinction, you can have a grown-up conversation. If the base is broad, the rate can generally be lower and we can all raise something.

I do not think just because people say, "I want to exclude my family residence and pensions," that means it is an insuperable obstacle. It is all about the rate and the amount in absolute terms that people think they can pay.

Just anecdotally, I tried out a one-off wealth tax to raise £250 billion among some of the richest clients I have, who are probably some of the richest people in the world, as well as friends who may pay it over the £500,000 threshold. Actually, none of them was particularly averse to it. They could all understand the purpose behind it once it was explained. The annual wealth tax is different. We have to distinguish very carefully between those two things.

Q301 **Anthony Browne:** Robert, is it not the case that the wealth tax is only popular because people believe they would not have to pay it?

***Robert Palmer*:** We have done quite a lot of public attitude work at Tax Justice UK, and there are a number of other organisations that have. We found that about half the people said they would personally pay more in tax. That needs to be set in a context where, if you look across a lot of research, people want to see more investment in public services. Tim is right that there is absolutely no need in the short term to raise taxes. We are borrowing at very cheap levels. This is about thinking about the future, for both the Conservatives with the levelling-up agenda and Labour's plans to spend more money.

When I have spoken to people in focus groups, and others have as well, people want to see more investment. They understand that middle-earners might have to pay a bit more. It only feels justified for middle-earners to pay more if those at the top are also paying more, and proportionately more, while at the same time protecting the poorest. This wealth tax conversation needs to be part of that broader point about where the public are at. People want to see more spent on public services. They are okay with the idea of tax rises in general, including on middle-earners. In order to maintain the consent and popular support for the tax system, they want to see those with wealth and those at the top of the income spectrum pay more in tax. A wealth tax is one way of doing that.

Q302 **Anthony Browne:** I will just ask you the question I asked Arun earlier. There is not one single example of a wealth tax around the world that has led to a decrease in inequality, which is normally the main reason given for introducing a wealth tax. The number of wealth taxes in OECD countries has gone down from 20 some 30 years ago to three now, because so many countries have been rejecting them.

***Robert Palmer*:** Arun has said there is not an example in terms of tackling inequality, but raising revenue in a fair way is another reason why you might want a wealth tax.

Q303 **Anthony Browne:** But the name of your group is the Tax Justice Network; it is not the Balancing the Government's Books Network. You are saying it is about justice and presumably inequality, but you have admitted it does not reduce inequality.

***Robert Palmer*:** It depends on how you design it. That is one of the reasons why the Wealth Tax Commission is really exciting, because it is saying, "If you did want to design a wealth tax in the UK that could do different things, including tackling inequality, here is how you would do it." We want to see good-quality public services funded in a fair way. Raising revenue in a fair way is absolutely at the heart of that.

Anthony Browne: Everyone agrees with that.

Dr Advani: The wealth taxes we have seen around the world have not been designed explicitly to say, "Here is what the wealth distribution looks like before the tax. Let us try to make it more equal at the end." What you are thinking of is, if you did not have that wealth tax, what you would have had instead. Would that have been a tax on middle incomes or lower incomes? Clearly in that sense it is less unequal than it would have been in some counterfactual world. It is certainly not the case that they have been designed to do overall redistribution.

Q304 **Anthony Browne:** Clearly if you raise taxes on poor people, it is going to have the opposite effect.

Dr Advani: Yes, exactly. That is the question of where you want to raise the tax.

Q305 **Anthony Browne:** The people on the left who promote tax always suggest taxes on the very richest. That is popular because most people do not think of themselves as rich; they think it will only ever apply to other people.

***Tim Worstall*:** I want to address this very specific point about wealth inequality. One of the reasons why no wealth tax ever shows that it reduces inequality is because we do not consider the impact of tax and redistribution on the wealth distribution. We just do not. When we look at incomes, we look at market incomes and then we look at the distribution of incomes after the impacts of the tax and benefits systems. There is quite a big difference. The Gini index moves about 13 points as a result of the influence of tax and benefits.

When we look at the wealth distribution—this is true of the Saez and Zucman stuff, Piketty and even Tony Atkinson's work in the UK—everybody's analysis of the wealth distribution is before the impact of tax and redistribution. That also means that, when we measure the wealth distribution after tax and redistribution, we have not changed it because we are not measuring the effect of tax and redistribution. The problem we have with all this talk of wealth taxation and inequality, so this specific part of the argument, is that taxing wealth does not change wealth inequality, because we do not take account of the effect of taxation upon wealth distribution.

If we want to have a proper, sensible conversation about the wealth distribution, we have to get the Office for National Statistics to go and measure the wealth distribution properly in exactly the same way that we measure incomes. We need to see the distribution before and after taxes and benefits. If there is anything that this particular inquiry is going to bring out, that would be my strongest recommendation. You can only manage what you measure. Okay, fine. We need to be measuring the wealth distribution properly.

Q306 **Anthony Browne:** A lot of the premise of this is about growing inequalities. Arun, you are a member of the LSE International Inequalities Institute. There is a chart set out here in our brief. I am not sure, but I think it comes from your report. It shows that inequality of personal wealth for the top 1% declined from them owning 70% of the wealth in 1895 down to 15% in 1985, but it has been comparatively static since 1985. Inequality has gone down dramatically over the last century, but over the last 30 years it has been fairly stable. Do you agree with that analysis? It has gone up a little bit.

Dr Advani: I completely agree. In terms of the 20th century, the numbers you are referring to are from a paper of mine. Inequality fell to a low point in about 1985 and has been roughly flat, slightly rising, since then; it has been broadly flat.

Q307 **Anthony Browne:** This is one thing that exercises me a bit. If all the figures—the Gini coefficient of income in the UK and so on—show that inequality has been pretty stable in the UK for the last 30 years, do you know why everyone keeps saying inequality is getting far worse?

Dr Advani: Inequality in terms of income is getting far worse. Other work of mine will show you that.

Q308 **Anthony Browne:** What about in terms of wealth?

Dr Advani: In terms of wealth, it looks like it is flatter. It is slightly rising. The key thing is less what the share is and more how fixed the distribution is. The counterpart to wealth inequality is generally social mobility. The thing that has been getting worse is social mobility. Whichever side of the political spectrum you are on, people generally think that social mobility would be a good idea and that has definitely worsened.

Anthony Browne: We all agree with that. Thank you all very much. It has been fascinating.

Q309 **Ms Eagle:** Obviously it is a very, very political decision as to how much to tax people and how much we redistribute it. Clearly, we have seen income distribution get very much worse in the last 40 years, and we have also seen wealth distribution get worse. Robert from Tax Justice UK, what do you think about Thomas Piketty's thesis, which is that wealth over time has accumulated explosively, because returns to capital have actually outstripped economic growth, and that the two world wars, where we saw a much more even distribution and much more progressive tax systems, changed that, but that was an aberration rather than the norm?

***Robert Palmer*:** It is a very good question. A lot of this also depends on the time horizon that you look at. My understanding on wealth inequality is that it went down until the 1970s and 1980s and then there was a fairly big spike in the 1980s. Wealth inequality has been relatively flat since then.

These questions around wealth and tax are also questions around power, access to resources and equality. Piketty's argument has a lot of merit. We think about the balance of power in our society, and those with wealth have significantly more power than those who do not have wealth. Wealth is not just about owning assets. It is also about access to security. It is about health. To put it bluntly, it is about how long you live. Something that we have perhaps not talked about is other forms of wealth inequality. For example, for every £1 owned by a white person in the UK, a person of black Caribbean descent owns 20p and someone of Bangladeshi descent owns a measly 10p. There are also fairly significant gender inequalities. Part of this conversation is about the mechanics of what a wealth tax would look like, part of it is about inequality and how we raise money, but part of it is also about life chances around equality, equality of opportunity and power. That is why thinking about wealth and who has wealth is really important.

Q310 **Ms Eagle:** There is also an issue about sustainability, is there not? If a society is run in a way where you see you do not get the opportunity to get on and have social mobility, does that not destabilise a society and make it less likely to be sustainable? I am thinking of the anger in the aftermath of the financial crisis, with the very popular perception, with some truth in it, that those who caused the crisis did not pay for the costs of cleaning it up, which has led to the rise of populism and created some threats to our democracy and the stability of our society. We have seen that across the globe. Is there not also an issue that the kind of society and the tax system you create have to be seen to be fairer, more effective and open up this idea of social mobility rather than close it down?

***Robert Palmer*:** I very much agree. 50 years ago, a person on a good salary could save enough to buy a house, and many such people are now sitting on significant wealth, not necessarily from their own skill but because of lucky timing. Without some form of family help, home ownership is a distant dream for many people in my generation. There was some research out the other day that looked at faith in democracy. It is, again, my generation, the millennials, who have the least faith in democracy. We can spend a lot of time talking about how you structure the tax system and individual taxes and whether a wealth tax is the right idea, but fundamentally we are living in a country where there are vast swathes of people who are locked out of prosperity, equality of opportunity and being able to make the most of their lives. This is damaging both to our economy and to our democracy.

I will perhaps finish with a quote from the Prime Minister. In lockdown, he stood up and said, "During the financial crisis, many people said we bailed out the bankers but we did not bail out the people. This time we will bail out the people." The political choices around tax and spend in the coming years are going to be about whether you want to bail out the bankers or bail out the people. Taxing wealth should be part of the mix of how we collectively build back from this crisis.

Q311 **Ms Eagle:** Do you think, as Thomas Piketty does, that in order practically to tax wealth, given the very easy ways there are now to shelter wealth abroad or to have it in tax havens, you need to have some kind of global system to tax wealth appropriately? How would you practically go about doing that? You cannot do that overnight.

***Robert Palmer*:** I will defer to Emma on how wealthy people manage to move their assets offshore or hide their assets in, I am sure, legal ways. We need to talk about a success story: since the financial crisis, there have been international efforts to crack down on tax evasion and tax avoidance, and to bring more transparency over both the ownership of assets and where assets are held. I would argue that it is easier now. We have something called the automatic exchange of tax information, for which tax justice campaigners have been campaigning for years. That allows tax and revenue authorities to understand where wealth is. It would be easier to implement a wealth tax now than it has ever been, but I would be interested to hear what Emma has to say.

Q312 **Ms Eagle:** Cue Emma. I do not know what your thoughts are. Would it be possible to get after some of the stuff that is currently hidden either by secrecy or in tax havens?

Emma Chamberlain: Certainly common reporting, which Robert was referring to there, and the general exchange of information has made a huge difference. There is no doubt about that. I am not sure it is a question of identifying assets so much as the other practical problems. I am a practical person. We all, in a sense, want the same things, but we actually need to deliver them. It is the delivery that has been consistently difficult in wealth taxes. If you limit your taxes and have very high taxes on the wealthy, they will tend to leave. We can design anti-avoidance rules to stop them leaving or, if they do leave, they have to pay tax for a period afterwards, but the very wealthy are quite globally mobile. We have to think about those things. We need to be clever about how you tax the wealthy. I have some pause for thought in some of what Robert is saying.

I do not think, though, that people hiding assets in offshore jurisdictions is the major barrier to an annual wealth tax. There are bigger issues on an annual wealth tax, not least valuation, liquidity issues and the sheer administrative hassle of having a comprehensive annual wealth tax. Those are the practical issues that we should be focusing on.

Q313 **Ms Eagle:** Arun, if we were to go for some kind of wealth tax, given the parlous state of inheritance tax and capital gains tax, might it be worth folding everything into one simple wealth tax, rather than having three? Might you abolish inheritance tax and do something different to capital gains or treat it in a different way, so that you could have a simple, well-understood tax on wealth?

Dr Advani: I am definitely in favour of simplifying and improving the current tax system, and the tax system for wealth in general. The first best would be just to fix the existing taxes rather than to bring in new ones. Edward will be the one to tell you all the details of how brilliant inheritance tax is, not that he thinks it is perfect, but one thing that makes it simple in terms of administration is people die once. You only have to go and collect the tax on them once, rather than having to collect it year on year. That is one thing in favour of making inheritance tax easier. The problem with it is that there are lots of exemptions at the moment. That fundamentally ends up being a political choice.

A wealth tax might be an easier way to get that money in one sense, if you thought politically you could not get people to pay tax on their agricultural or business properties, which are currently exempt, or their pensions when they are handed over to their children. We talk about pensions and the Government encouraging people to save for their retirement but actually the Government, in the way that pensions are exempted from inheritance tax, are actually encouraging people to save to hand on to their children, not for their own retirement but to pass it on. Fixing those problems seems like the first thing to do. Similarly, with capital gains, the recent review suggested some solutions to some of the problems.

If you could fix those two problems, you would be better off just fixing capital gains tax and inheritance tax. In a world in which you said, "Literally politically, it is just going to be impossible to touch either of those two things. They are so bad and irredeemable. You are never going to fix inheritance tax and you are always going to be stuck with the current terrible inheritance tax," I might just about sign up to saying, "You might want an annual wealth tax instead." It is a poor second best in the sense that it is administratively much harder to do. Inheritance tax, in principle, is much more straightforward to fix, but the problem is about political will.

Q314 **Ms Eagle:** What do you think, from your berth in retirement after a lifetime of doing admin, Edward?

Sir Edward Troup**:** You are touching on the right point, but I look at it from the other end. I have seen far too many policy proposals over the years that are put forward because nobody can work out another solution or everything else is broken. It is always better to try to fix what you have than to pile something else on top of it.

We talk about this as a wealth tax; it is a tax on capital. We have a lot of taxes on various aspects of capital. You have picked inheritance tax and capital gains tax, but council tax is another one. None of them works properly, and you have to ask questions, quite apart from the fact that a wealth tax taxes accumulated wealth as well as the growth of wealth. We probably should tax people who get wealth for undeserved reasons, such as just sitting on their house while prices go up. That is a gain, and that should be taxed in a very different way from passive ownership of wealth you have acquired through your own hard work and savings.

There is real risk that we are looking at putting something new, difficult and probably pretty inefficient on top of some already non-working taxes. We should actually go back and look at inheritance tax and capital gains tax. If this commission and your Committee's work do one thing, I would like it to expose some of the defects of the existing capital taxes while expressing some view on what you think about this as an additional capital tax.

Q315 **Siobhain McDonagh:** I want to look at some of the practical questions of what should be included in a wealth tax. Emma, although there is a lot of personal wealth in the UK, most of it is not in cash but in land, buildings and pensions. What assets do you think should be included in a wealth tax?

Emma Chamberlain: Everything. If you exclude something, you immediately lay the ground for some avoidance the next time round, because someone says, "Hang on, that business is exempt. Why do I not put my money in a business like that?" You are then just taxing easy assets, like your quoted investments or your bank account, and people will move out of that and into the exempt assets. That is exactly why all those countries—we used to have 11 of them, I think, and now we have only three—have ended up abolishing wealth taxes. People resented the fact that if you were wealthy, had flexibility and could work out how to get into your exempt asset or cap your wealth tax by virtue of manipulating your income, because they had various ways of dealing with that, you could not pay wealth tax. If you were someone who earned a wage and had all your assets in a bank account and quoted investments, you ended up paying more wealth tax even though you might be less wealthy.

If you are going to have an annual wealth tax, and we have illustrated a lot of the difficulties, you are going to have to tax everything. Pensions is not so much a valuation issue, but it is certainly a liquidity issue. Family homes may well be a liquidity issue if you are having an annual wealth tax, and private businesses are quite complicated to value. I am not sure we want to turn our nation into one of bookkeepers and valuers, which an annual wealth tax may well force us into. As I say, the arguments are quite different on a one-off wealth tax.

I absolutely endorse what has been said about improving inheritance tax first. We should go to that first. Let us try to do that difficult thing. There has been a parliamentary report on that, which we can talk about later. Wealth tax is not an easy option annually.

Q316 **Siobhain McDonagh:** I think I know the answer to this one, Tim, after your contributions to the Committee so far. Do you think there should be a wealth tax on pensions and homes? My particular concern is that we now live in a country where one in 10 people own more than one home, and four in 10 do not own any.

***Tim Worstall*:** We have just spent the last 50 or 60 years encouraging people through the tax code to save for their pensions. Lifespans have got longer. We now tend to live 15, 20 or 25 years, even, in retirement, so we had to save more. This rise in pension wealth is not some problem of wealth that is overhanging society. We have to save more for our expanded lifespans, that is it. It does not really matter whether the money is saved through Government, private pension plans or whatever. Somewhere, society has to be saving the money to pay for 20-year retirements. Pensions are not a problem. Pensions are wealth and not a problem, and they should not be taxed.

We probably do need to change the taxation system for housing, but we should be moving to land value taxation anyway. This is the old idea of Henry George that the value of the land, plus the planning permission on it, is what gets taxed, not what is built on it. That means a house in the centre of London pays vastly more than a house out in the middle of some moor in Yorkshire. The two things are valued differently, and they will pay different amounts. It is tax on wealth, but it is the land itself, plus the planning permission, that is being valued; that is simple to value and it is also taxed.

Everybody from Milton Friedman and going leftwards says that land value taxation is the least distortionary, least costly tax that any society can have. We should have that anyway, but that then solves our property taxation problem in wealth. We have already about pensions taxation in wealth. Therefore, we have now dealt with 80% of the wealth that people are talking about taxing. We have solved the problem already.

Q317 **Siobhain McDonagh:** Do you not think, Tim, that you might be being slightly disingenuous, given that clearly some people have very large pensions to protect themselves, while others have very small or no pensions to protect themselves?

Tim Worstall: Me? Disingenuous? Let us talk about doctors, then. When they changed the pension taxation and how much could be contributed into a pension, suddenly doctors' pension pots were up against the limit, and so we have senior surgeons who suddenly say, "I am only working one day a week now. The other four days I am playing golf, because my tax rate is now 90%." This is one of the problems of having tax rates that are too high. It is called the Laffer curve. Half the country says the Laffer curve does not even exist, and yet here we are observing it in the NHS.

This is one of the problems that we have with having high taxes. People stop doing stuff. This is the same as the deadweight costs that I mentioned right at the beginning. When you tax something, something else stops happening. We should not stop people doing the things that we consider valuable. We should not be taxing pensions if it means that a surgeon with 35 years' experience stops fixing gallbladders and goes and plays with golf balls. This is exactly the sort of problem that we come up against when we decide that we want to raise taxes at the wrong end of our spectrum of deadweight costs. We do not want a wealth tax.

Q318 **Siobhain McDonagh:** Should we tax people who own more than one home in order that somebody else might get access to buying a home?

Tim Worstall: I do not mind. If you wish to solve the problem of there not being enough homes, the answer is to issue more planning permissions. The limitation that we have in this country is on the permission to build on a plot of land. This is something that is done by the bureaucracy. We can write more pieces of paper, which are more planning permissions, at virtually zero cost. Why do we not go and do that and make all housing cheaper?

Q319 **Siobhain McDonagh:** You can join my campaign to build on some part of the ungreen greenbelt if you like, but I can talk to you about that later.

Tim Worstall: Might I recommend that we blow up the Town and Country Planning Act 1947 and its successors?

Q320 **Siobhain McDonagh:** Emma, could non-contributive pensions be valued by imputing a valuation based on the income they provide?

Emma Chamberlain: Defined-benefit pensions can definitely be valued. We do it all the time on divorce. They are not easy to value in the sense that you can have a lot of argument, as anyone who is divorced of a defined-benefit pension will know. We can certainly do it. There are a number of ways that you could do that, and we talk about that in one of the papers. Rather than having a specialist pension adviser to value you, you could have some form of cash equivalent figure that the pension provider can provide.

No other country has ever put a wealth tax on pensions. The real problem with defined-benefit and defined-contribution pensions is that, if you do not do that, you are really saying that family businesses, which may well be the pension of that person, are going to pay instead. There is a problem of excluding them. If you do tax pensions on an annual basis, you are probably looking at some liquidity issues that are not that easy to solve.

Q321 **Siobhain McDonagh:** Arun, would you advocate including land and pensions in the calculation of wealth for a wealth tax?

Dr Advani: Yes, very much so. I am with Emma completely in saying that, if we are doing a wealth tax, we should be including all the assets. There are three reasons. The first is that, in terms of efficiency grounds, when we have had this discussion about countries that have been unsuccessful in their wealth taxes, one of biggest sources of lack of success is that they have excluded some assets and you have just seen people switch a lot to those assets.

Secondly, as Emma says, there are equity concerns around this issue that someone who runs a business is now disadvantaged because that was their pension and they are now being taxed, while someone who has a pension is not being taxed. Similarly, if I own a home, I am now not being taxed on it because you have excluded it, but my brother, who is still saving and trying to get into buying a house, is being taxed on his savings that he has in a savings account as he tries to build up the deposit for a home. It is a really a problem to exclude that.

The third thing is the yield. If you had a tax of 0.2% above £500,000, that would be raising something like £10 billion if you include everything. It raises only a fifth of that, so only £2 billion, if you are excluding pensions and houses, because these are such big parts of the wealth distribution. The broader point here is that, when you hear people say they want certain things excluded, the reasoning typically, from the survey work and focus groups that we have done, was really about not wanting to tax people who have ordinary wealth. If that is the underlying concern, a more sensible alternative is to think about where the threshold should be set, if that is a political concern, so that you are excluding whatever you think that is, but also be aware that if you are doing that you are going to reduce the revenue that you get. That is the way to think about this issue.

On this point about land being a brilliant thing to tax and why are we not doing it, politicians have currently failed to grasp that nettle and they explicitly exclude agriculture land from inheritance tax, which is the one place where we typically are taxing wealth when it is being transferred.

The land that Tim would like to be taxed, which I would also like to be taxed in that context, is being excluded from IHT.

Q322 **Siobhain McDonagh:** Would you include ISAs?

Dr Advani: Yes. I would include all wealth. That will be the answer for everything.

Q323 **Siobhain McDonagh:** How would you overcome the liquidity difficulties for pensions and homes?

Dr Advani: Emma mentioned this already. In both cases, you take the money from the funds. In the case of defined-contribution pensions, there is a pot of money there that the pension provider is holding for you, and essentially that chunk of money gets transferred straight over from the pension provider. I do not need to have access to it myself directly. It just gets sent to HMRC. For a defined-benefit, there is not a pot like that, and so the way to do that would be to have it essentially as something that comes out of the lump sum contribution that I will later get when I retire. That means some of that money is deferred. For any sensible threshold you would set, even something like £500,000, there are not many people with £500,000 of wealth who have defined-benefit pensions and who are very young. You are typically still going to be getting this money over a period of something like 20 years, which will be slower than what you would get for something else. That would be the way in which you would delay it, effectively, just because there is not a natural pot of money sitting around in the way there is for defined-contribution pensions.

For houses, people are either going to pay out of their incomes or, for the few people who are really that constrained, they would effectively need to extend their mortgage to cover it or defer it to the point at which they sell the house. If it was an annual tax, you could allow a deferral to the point at which that asset is sold, if you thought that was particularly important.

Q324 **Felicity Buchan:** I want to follow up on Siobhain's questions. Emma and Arun have both said that it has to be a wealth tax on all assets, including the family home. I represent a central London constituency, and one concern I have is that a lot of people are sitting on very expensive houses but have very little income and no money in the bank. If you were to have a wealth tax on those homes, these people would be forced sellers. What are your thoughts on that?

Dr Advani: As I was just alluding to, what you could design as a liquidity solution for those people is to delay the payment until the point at which they are selling the house or transferring the house at the point of death. Either of those would be the liquidity solution you would typically want to put in there. I come back to the fact that, if you do not include the homes, you are saying that people who do not currently own a home are going to be taxed on the savings they have as you try to build up their deposit to buy a home, but if they are lucky enough to have a home, they are not going to be taxed on the value of that home. That seems unjust by any standard.

Q325 **Felicity Buchan:** The bulk of my questions are on the behavioural aspects of wealth tax. Let us say that we are looking at prospective wealth taxes, because we have said that retrospective wealth taxes will not affect behaviour. Emma, one of my concerns about a wealth tax is that the ultra-wealthy, who, as you said, are very globally mobile, all disappear to their homes abroad, and we reduce the tax base to such an extent that it is actually counterproductive, in the big scheme of things, to have a wealth tax, particularly if you look at all the other taxes, such as VAT on spending, personal taxation and PAYE on employees. Has the Wealth Tax Commission modelled all these effects, and have you come to a conclusion?

Emma Chamberlain: It is fair to say that Arun and I have a slight disagreement about the behavioural effects. I tend to think that if you have a high wealth tax that is progressive and unlimited, you will see quite a significant behavioural effect of people leaving. His modelling suggests that is not necessarily the case, or that it is exaggerated.

The very wealthiest are very mobile. They may keep some wealth here, but over time it will be moved. It does not mean you cannot design for obvious avoidance by somebody waking up in the morning and saying, "I do not really want to pay wealth tax; I think I am going to leave now." You can have what I call a tail, where for a period after they leave they are subject to some form of wealth tax if they have been in the country for a minimum length of time. You can also do what we do on inheritance tax, which is to tax non-residents on residential property, commercial property and enveloped residential property—in other words, residential property held in companies—which people used to use as a way of avoiding inheritance tax. That has been stopped since 2017. There are certainly anti-avoidance mechanisms you can take, but ultimately, if you set your rates too high, very wealthy people will probably leave. That is why the design and calibration of the tax system has to be quite careful.

Dr Advani: I will say three things. I agree with Emma that, if you set a sufficiently high rate, clearly people will leave. The evidence from the rates we have seen around the world—as Emma said, we have not seen annual wealth taxes with rates above 1%—is that you certainly see some migration, but it is not very large and it is not large enough that you see any Laffer-curve-type effect, where the revenue that you raise is going to be lower. You certainly will see some response; it will not be that nobody moves.

In thinking about what that means, if you or I were to migrate, that would mean selling our home, moving house, setting up in Germany or something and moving all our money over there. As you have already said, the very wealthy are already very global, so for them leaving does not mean selling the homes they have here, stopping employing the people they have here or necessarily moving their families and taking their kids out of schools here. It means changing the number of nights they spend here. It does not necessarily mean a huge impact on VAT, because they will still be spending 80 nights here, instead of 100 nights. It does not necessarily mean an impact on the PAYE of their employees.

It certainly means an impact on the tax they pay, but, as Emma already said, one of the upsides of our new freedom post Brexit is that we have not previously been allowed to have any exit tax. You will remember that our current Prime Minister got in a bit of a tangle with the US when he tried to give up citizenship and was asked to pay a capital gains tax on his home or something, because the US has an exit tax. Many other countries have what is effectively a tax charge for people who are moving away. We have not been able to have that previously in the UK because the EU rules did not allow it. With our post-Brexit freedom, that is one of the things we would be able to do, to have something like these tailed liabilities that Emma alluded to, saying, "If you are leaving, the gains you made over the period that you were here are still taxable." For some small number of years after they leave, the tax continues so they cannot use this for the obvious avoidance-type things that Emma was just describing.

We have some solutions to this, but clearly it is not going to mean that nobody leaves or that there is no loss of tax revenue.

Emma Chamberlain: The other thing to bear in mind is that, if you have a high exempt threshold, you will have the wealthy fragmenting their wealth. They will give it to relatives and use trusts. In one of the design papers I have tried to set out ways one could reduce that, but it is not going to be possible to completely eliminate it. You have to take account of those behavioural responses.

Q326 **Felicity Buchan:** Yes, absolutely. I wanted to come on to that, because immigration is the extreme response, but clearly there are others. For instance, there could be under-reporting of assets. You have mentioned divvying up assets between family members. Offshore evasion is clearly another one, as well as reallocation of assets, potentially, into exempt classes. How much of the wealth tax do you think you lose by virtue of all these manoeuvres?

Emma Chamberlain: It depends on the design. If you design it well enough, you try to eliminate or reduce that. Having said that, if you do have a high exempt threshold and progressive rates, you will get more avoidance, because it will be much more worthwhile for people to divide it up among their children and grandchildren using trusts. If you have a relatively low threshold and a flat rate, it is not really worth it because you are going to be paying at the same rate whatever happens. Those choices are political ones, but they also have quite a significant impact on avoidance behaviour.

Q327 **Felicity Buchan:** I have a follow-up question specifically on Switzerland. I understand that you see quite a bit of migration between the cantons.

Is that your experience?

Emma Chamberlain: That is right, and indeed Arun has mentioned that in his behavioural responses paper. There clearly is. It has to be said, in fairness, that it is much easier to move over to another canton than it is to completely up sticks and leave the UK. We have to be a little bit careful in saying that means there will be a massive behavioural response if you raise the rate a small amount. Apart from Geneva, rates in Switzerland are broadly pretty low and flat.

Q328 **Felicity Buchan:** Arun, I wanted to pick up on a point you made. You alluded to the post-Brexit world. In that post-Brexit world, do you not think we should be encouraging global wealth creators to come to this country rather than potentially giving them an incentive to leave?

Dr Advani: We have a large set of policies. There are a lot of different taxes and policies that we have to do different types of things. For all the things I dislike about it, if you think that is what you are trying to do, one of the things that we have that does that, which Emma will probably have lots to say on, is the non-dom regime. That is specifically a way of reducing the tax that is paid by people when they first come to this country, and for some time after. There are certainly other things that we are doing. That is one of the reasons that a one-off wealth tax is not going to suffer those kinds of issues.

You said that you wanted to focus on the annual wealth tax in this set of questions. It will tax them on some of their wealth, so it will change what the incentives are to be here. It is important to recognise that we are starting from the premise that the Government have decided they want to raise some revenue somehow. If they are not raising the money there and they need to raise that revenue, they are going to have to tax something else. We probably want hard-working families to continue to work hard and to continue to provide labour for the entrepreneurs who are going to come up with brilliant ideas. We need to think about the balance of taxes, and, as Edward said at the start, they should not all be loaded in one direction or the other. You would not want to raise all Government spending on the back of just capital taxes. You probably also do not want to do it all on the basis only of taxes on labour or on consumption, or any other single source.

Q329 **Felicity Buchan:** Edward, do you want to come in on that point?

***Sir Edward Troup*:** I was not going to add particularly on that point, but I was going to come in on a point you made earlier, Ms Buchan, on the question of property owners who have high-value central London properties and no income. It touches on the question that Mr Browne asked before. It shows that, if you are imposing a tax where you have to make these adjustments so that you only pay the liability when you die or when you get your pension, in the case of pension wealth, you are moving back towards having a tax on retirement or on death. It comes back to the point that, if that is what you are going to have to do to make this tax work, should you not go back and look at inheritance tax, pensions taxation and whatever, and get that right, rather than trying to use this as a proxy for achieving the same aims? It reinforces the point I made to Mr Browne earlier.

Q330 **Harriett Baldwin:** All the witnesses, in different ways, have made it clear in their evidence that, in fact, we do have wealth taxes in this country, whether they are called capital gains tax or inheritance tax. Those have been cited by every witness as having some of the same characteristics. Inheritance tax is known to be the most unpopular tax. It is seen as the most unfair of all the taxes out there, and no one likes any taxes, obviously. In terms of people voting for people to bring in these taxes, I wonder where this support for this idea is going to come from.

I digress slightly. Emma, in terms of the percentage in inheritance tax that estates pay, it seems clear from the figures that were published by the Office of Tax Simplification that estates over £10 million actually pay a lower average rate of inheritance tax than estates between £1 million and £2 million. If they come to you for ideas on how to reduce their inheritance tax, what are the top three things that you recommend they do?

Emma Chamberlain: It is certainly true that inheritance tax is regressive above £3 million. At £2 million to £3 million they are paying 20% at effective rate, and above £10 million they are paying 10%, and yet the headline rate is 40%, so when you talk about inheritance tax that is what people think they are going to pay. It demonstrates that there is a real gap between the reality and what people actually think. What do people do? They use the statutory reliefs that successive Governments of both political parties have continued to offer taxpayers. Since 1986 we have had the ability to make lifetime gifts, survive seven years and not pay inheritance tax. That was introduced by Lawson, it was not changed by Labour and it has remained in place. The regressive nature stated by the OTS is probably understated because it does not take into account the fact that a lot of very wealthy people would have made lifetime gifts and survived seven years and never paid tax at all. That is one very simple relief: give away your assets and hope you survive seven years.

You have agricultural property relief and business property relief. Why do we have those reliefs? Because the rate is so high. At 40%, a business can make quite a strong case of, "I cannot possibly pay 40%, even over 10 years, because I am going to be out of business if I have to pay this inheritance tax, given the low returns on wealth at the moment." That means a relief is introduced. As soon as you have that, you get into all sorts of behavioural responses, which I have talked about, for wealth tax and you will have wealthy people buying land. If you are a £100 million business and you happen to die, death is not a planned event for most people. They will think, "Why should I be paying 40% tax on that? That is a really big number." They then get 100% relief, and then people say, "Why are they getting 100% relief? They do not pay any inheritance tax on death, and yet they do not pay capital gains tax either because there is this tax-free death uplift. That is not fair, because I have my family home, and above £1 million, I am paying over that value at 40%."

It is this perception, and it is a reality, of unfairness. People do not necessarily quite know why it is unfair, but they definitely perceive it to be unfair. I think the OTS report rather demonstrated that. That is one reason why inheritance tax is deeply flawed and complicated in design. The nil-rate band, which is a very simple concept, where the first £325,000 of assets is not subject to tax even if you die within seven years, is actually really complicated to explain. I am not sure that even the OTS report fully grappled with those issues. If it is that complicated, there is something fundamentally wrong with the tax. We have 25,000 estates that pay tax, and 275,000 people filing a really complicated return not to pay the tax. There is something wrong with the design of a tax that ends up in that situation and yet does not raise very much money and is incredibly unpopular.

As well as inheritance tax, there are other ways of taxing transfers of wealth, such as capital acquisitions tax or lifetime receipts tax, which Thatcher was quite keen on, or you could tax it all as income. There are a number of ways you could do it. If you are going to go with looking at reforms of transfers of wealth, you absolutely have to lower the rate, because only if you lower the rate can you get rid of some of these reliefs and exemptions. That is where I would be going, but it is no good criticising advisers and clients for taking advantage of things like making a gift and surviving seven years, or using APR, because that is what Governments of both political persuasions tell us they want to do.

Q331 **Harriett Baldwin:** Thank you for the summary. You mentioned agricultural land, and I can see why you want family farms to stay in the family, but what is the policy reason behind allowing James Dyson to buy agricultural land to avoid inheritance tax?

Emma Chamberlain: James Dyson is always brought up in this debate, so we laugh at this. The statutory rules say that if you own land for more than seven years and you let it out, you get 100% relief, and if you own agricultural land and farm land for more than two years and actually farm, and you can farm through a contractor, you get 100% relief.

You have touched on a really important point: what is the purpose of business property relief and agricultural property relief? Do we want to limit it to people who get most of their income from that business or farm? That is quite complicated. Do we want to limit it to small businesses? That is also quite complicated, because once you start introducing a cap, HMRC have to work round that boundary and start getting lots of valuations.

Before you start reforming inheritance tax or, indeed, any form of transfer of wealth, you need to think about what you are trying to achieve. If the aim is to say we want to encourage all wealth creation and we want to exempt all business from taxes on transfers of wealth, let us be transparent about that. The problem at the moment is that the rules are riddled with inconsistencies. When I lecture on it, people say, "What is the purpose of the relief?" That sometimes helps you in working out what is intended behind the legislation. I honestly do not have a clue.

Q332 **Harriett Baldwin:** Tim, would you say there is a Laffer curve in inheritance tax? Do you think it could raise more if it was at a lower rate?

***Tim Worstall*:** There is a Laffer curve for every tax, and the Laffer curve will change depending on which tax and which structure of society you have surrounding it. The example I always use is the Robin Hood tax.

Q333 **Harriett Baldwin:** I know the one but, unfortunately, I do not have time for anything other than inheritance tax. Edward, do you think it would be possible for the Chancellor to take on board the recommendations of the Office of Tax Simplification in its inheritance tax report? Would that end up raising more money for the Exchequer?

***Sir Edward Troup*:** I think it would. I would need to go back and look at the details. In a sense, everything is technically possible. The question is the political deliverability. I do not think there is any administrative objection. Indeed, there are quite a lot of administrative advantages in the OTS recommendations, and my recollection is that they produce net yield, but I am happy to be corrected on that by one of my colleagues.

Emma Chamberlain: The OTS is not a fundamental reform. It is fiddling around the edges. That is not its brief. Its brief is administrative simplification across the whole policy. It is all about the political will.

Q334 **Harriett Baldwin:** Robert, would you abolish inheritance tax?

***Robert Palmer*:** As we have heard, the current system is broken. Some of the things that have been suggested, such as a receipts tax, which is where the recipient of the donation gets taxed rather than the estate, might make more sense. They do it in Ireland.

Q335 **Harriett Baldwin:** Is that what you would support?

***Robert Palmer*:** Yes. Tax has to be based on consent, and it is really problematic. Politically, I quite like the idea of an inheritance tax, but the way it is working at the moment has lost public consent and is not really raising the money.

Q336 **Harriett Baldwin:** Would you recommend taxing wealth and taxing the people who receive wealth?

***Robert Palmer*:** You have to look at the package when you do any tax reform. Wealth is undertaxed at the moment, particularly those who have the most of it. There are different ways in which you can tax wealth. A reformed inheritance tax could be part of that, as could a wealth tax.

Harriett Baldwin: For the record, I am in favour of a tax system that encourages more people to become wealthier over their lifetimes.

Q337 **Mr Baker:** I will just pick up on that theme, because James Dyson has come up and, as far as I am aware, he is wealthy because he is an exceptionally good engineer and entrepreneur, and he will be just one of many people who have justly earned their wealth by operating to create value for other people. I will ask Robert very briefly, if I may, because I am well aware of a number of books written on this subject, where the justice is in saying his property is being undertaxed and should just be taken?

***Robert Palmer*:** All taxes are difficult, and you have to make political decisions about who we are going to tax. I would prefer to tax those who have the broadest shoulders, and the wealthy should be part of that. I would like to see a tax system where the poorest are protected, where maybe middle earners pay a bit more, and we ask those with wealth to contribute a bit more. Tax should not be about punishment. It is about how we collectively provide for the things that we all rely on.

Q338 **Mr Baker:** It seems to me that he has broad shoulders as a result of people giving him their money voluntarily in exchange for products. I wonder whether Tim has any observations on this issue of justice.

***Tim Worstall*:** There is a lovely paper by William Nordhaus. Entrepreneurs make piles of money if they are successful, but who really gains the value? His answer is that the entrepreneur, like James Dyson, ends up with about 3% of the value that has been created by his production and invention, and the other 97% goes to all of us in that we have vacuum cleaners that work. Why are we taxing James on his 3% when we already have 97% of the value?

On the other side of this, there are people we might think have not done quite as much to produce the wealth themselves, like some of the London aristocratic estates, such as the Cadogans and the Grosvenors. One of the joys of the land value taxation is that we manage to tax them through land value taxation, and, if we did not run around trying to tax the entrepreneurs, we would probably have more entrepreneurs producing more value that we all get to enjoy. That sounds like a plan to me.

Q339 **Mr Baker:** As I was doing my research for this session, I picked up the magisterial *Single Income Tax* report by the TaxPayers Alliance and the Institute of Directors from 2012. Chapter 6, "Transaction, wealth and inheritance taxes should be abolished", is quite a considerable chapter that I have enjoyed refreshing my memory of. I wonder whether anyone giving evidence today agrees that transaction wealth and inheritance taxes should be abolished.

***Tim Worstall*:** Transaction taxes are a terrible idea. Consumption taxes are good. Transactions taxes are terrible. It goes back to James Mirrlees's Nobel prize for the study of taxation systems: do not tax transactions.

Q340 **Mr Baker:** I hope Rushanara will not mind my saying that earlier she observed that everyone is saying taxes are going to have to go up, but the chief economist on this particular report was David B. Smith. I just observe that he has given us evidence to say we are at the taxable capacity of the UK economy at the moment, but perhaps that is a session for another day. I am going to turn to capital gains tax. Arun, capital gains tax has been reformed several times. Do you think that increasing the level on capital gains now could yield additional revenue? If so, why do you think that?

Dr Advani: The proposal on the table from the OTS, as coy as it was about saying it, basically went back to Nigel Lawson in 1988. The report quotes him directly. I cannot remember exactly his words, but broadly he said, "We see that having a capital gains tax where you have a gap between the rate for gains and the rate for income taxes leads to avoidance, and what you want to do is to equalise those rates." Just to be clear, that does not mean you have to be taxing all level of people's attempts to invest and be productive. You want to give people an allowance for the capital they put at risk. When people put money at risk, you might well want to say, "Here is something we want to try to support." Trying to reduce the rate on capital gains tax is saying, "For the people who put money at risk and happened to get lucky, those are the ones who we want to be supporting, and we are not supporting the ones who put money at risk and lost it, because we are giving the lower rate only to the ones who got lucky."

Alternatively, you think that the capital gains were made because the person worked really hard, in which case people who work really hard in labour and pay income tax are working really hard. I am not sure why you would want a different rate for the working hard part. You may well want to support people in terms of the capital they put at risk, but that is different from then offering a lower rate on the actual return they make. I would equalise the rates and do something about the base. That is the way to do it.

Q341 **Mr Baker:** Just to play that back and make sure I have understood it correctly, you are arguing that people should be equally taxed on all their sources of income. Is that right?

Dr Advani: Yes.

Q342 **Mr Baker:** That happens to be the solution in this 2020 *Single Income Tax*. They want to abolish capital gains tax but have an equal tax on all sources of income. Tim, do you think the rates of capital gains tax are already too high?

***Tim Worstall*:** Back in 2011 or 2012, the Treasury said that current capital gains tax rates were at about the Laffer curve peak. Part of the reason to have taxation is in order to raise revenue to pay for Government. If a higher rate would produce lower revenue, why have a higher rate? It is worth reminding ourselves that this suggestion for equalising income tax and capital gains tax also includes an indexation allowance, and you have to have that if you have the same rates. You have to account for inflation.

It is not entirely obvious that indexation plus income tax rates produce more revenue than a lower capital gains tax rate without the indexation allowance. It is a complicated calculation. It depends, and it will change year by year, but it is not obvious that the answer is more revenue. I tend to think we are about right where we are at the moment, to be honest. I would not say that is based on a great deal of study.

Q343 **Mr Baker:** Has anybody got anything else to add on the level?

Dr Advani: In terms of the indexation allowance, yes, you should definitely have it. At the moment it is not particularly complicated to calculate because inflation has been approximately zero for a little while, so you basically should be thinking about it as an increase in the rate. When it was originally brought in by Nigel Lawson the first time round, it was obviously very important, because inflation had been higher.

Emma Chamberlain: I am slightly sceptical about alignment of income tax and CGT rates. I am old enough to have been in practice in 1998, when Labour reduced the rates. They had a differential rate between long-term and short-term gains, which is what some other countries, like France and the USA, do. I remember that people just stopped going abroad, doing avoidance schemes like selling their shares and taking loan notes. The rate is absolutely critical to behaviour. If you raise CGT rates, I am sceptical about whether you will get more revenue. If you are going to align the rates, you are probably going to need an exit tax, because otherwise before people sell their business they will go abroad, stay abroad for six years, sell while they are abroad, and then you will not get anything. In my view, getting something is always better than getting nothing.

Dr Advani: Fortunately, being out of the EU lets us have that exit tax.

Mr Baker: Perhaps I will let that one go by.

***Robert Palmer*:** Part of the problem is also that the current system is pretty distortionary, and so the average tax rate on someone earning £10 million is about 21%, which is less than someone who is on the average wage. When you are designing a tax system, it is partly about revenue but partly about fairness, and lots of things build into this. Politically, that is something we also need to remember when we are thinking about how we design the tax system.

Q344 **Mr Baker:** I agree with that. I should just say that, as somebody from a working-class background who has not got a lot of wealth to be taxed away, I have asked my staff to invite the IoD and TPA to submit their magisterial report as evidence to this inquiry. Edward, based on your experience, what reforms would you like to see to capital gains tax?

Sir Edward Troup: Capital gains tax is a bit like Churchill's description of democracy. It is the worst way of taxing capital gains except every other one that has been tried. It is very much a minority sport. We did not have it until 1965. It is only really here to protect the bigger base of income tax, to try to stop people turning income into capital gains. There is no right way to do it. You can actually say that what was done in 1965 was not a bad way, just taxing gains at about half the rate of income tax and be done with it, because some gains represent income that is already taxed—your shares in a company, which has already paid the full amount of tax, for instance—and some represent gains that are completely untaxed, like your holding of gold bullion or whatever else. There is no right level.

I disagree with Tim. There is no Laffer curve for capital gains tax, for the simple reason that, unlike other forms of income and profits, you can decide when to realise your capital gains. If you think the Government are going to put the rate down, you just do not realise the gains. You can effectively yield quite a lot of money by reducing the rate if taxpayers think that the rate is going to go up.

If I may have one final swipe on this, as someone who spent the first 10 years of his working life in the 1980s dealing with the complexities of indexation, relief and capital gains tax, it is extraordinary that the Office of Tax Simplification should be advocating inflation relief in capital gains tax, when if I go out and buy a Government gilt, in normal days when there is normal interest rates and normal inflation, I get no relief against income tax for the inflationary element of my interest. They are now suggesting that we have all the complexity of inflation relief on capital gains. I would not fiddle around with it. Just try to stop as much avoidance as you can.

Tim Worstall: If timing means that you can switch your sale, and therefore your gain, through tax years, that is proof of the Laffer curve in the sense that you can now reduce or increase the tax you pay by changing your behaviour. That is what produces the Laffer curve—the change in behaviour.

Mr Baker: I am tempted to think that the Treasury Committee now needs a podcast or some kind of *Strictly Come Dancing*-style behind-the-scenes show to fully discuss this issue.

Q345 **Alison Thewliss:** I am going to ask some questions around property taxation. Tim has been quite clear in his view that he is quite keen on land value taxation, so I wanted to follow up on that. I am not sure what the figures are for England, but the registers for Scotland only have 39.2% of land mass coverage. Does that present a problem for that type of taxation?

Tim Worstall: You could go and ask the Duke of Buccleuch for the rest of the money, but that is not quite accurate enough. It is not actually as much of a problem as you might think. Forgive me, I know the numbers for England rather than Scotland, but most of the land that is not registered is of very low value; it is moorland that has not really changed hands or been registered as changing hands for the past century. The value is in high-value pieces of urban land, and pretty much all of that has changed hands in the last century and a bit, and is therefore registered at the Land Registry. You may only have 30%, 35%, 40% or whatever of the land area registered, but you have probably got something much more like 90%, 95% or 98% of the value registered. Since you tax value and not acreage, you are fine.

Q346 **Alison Thewliss:** How would you reach those people who you do not have the data on? How would you tax them if you do not have complete information?

***Tim Worstall*:** There has been a lot of talk for many years about whether we actually make a requirement that all land must be registered. There are good arguments in favour of doing that anyway. It is just that the current system is that it only gets registered when somebody actually sells it and says, "Excuse me. Can you come and register this because I have just sold it?" or the buyer says, "I want it registered." It is entirely possible to go out and say, "Okay, fine. We are now going to register every piece of land." Good.

Q347 **Alison Thewliss:** In terms of paying the taxation and setting the rates on that, it is easy enough to talk about a house that somebody owns or a business that somebody has a shop on. What about public land? How does that fit into the equation?

***Tim Worstall*:** That is an interesting one. I will have to argue a little bit by an analogy. The military has lots of land, and it is ludicrous that the Ministry of Defence gets charged on land that the Army drives tanks over, because we have to have a place for the Army to drive tanks over, and yet we do. We charge them rent because it concentrates minds if you actually have to pay rent out of your budget for this. It is money from the Treasury going back to the Treasury, which is silly, but it concentrates the minds of the managers. Therefore, why not charge the NHS for the land it uses? You would have to increase the NHS budget by the amount you are going to charge them for.

It sounds ludicrous but it works, because we do this with radio spectrum. We can sell radio spectrum to Vodafone or we must use it for the military, because they need to have radios. What we do is we charge the military the value of the spectrum if we had sold it to Vodafone, and then we raise their budget by that amount. We get the money back, but we have made the military consider whether it really needs that spectrum, and sometimes it comes up with the answer, "No, we do not need that anymore." At that point we sell it to Vodafone and the Government get lots of money. Selling spectrum makes a lot of money for the British Government, and, yes, when the public sector has access to these things, like land or spectrum, we should be charging them for them just to concentrate the minds of the managers, to make it apparent in the budget what is being done. That is how we get efficient use of these scarce resources.

Q348 **Alison Thewliss:** What would be the incentive to dual the A9 if the Scottish Government had to pay additional money for that?

***Tim Worstall*:** It is a paper exercise. The public organisation, the hospital, has to pay the land value tax for the grounds of the hospital, because it makes the people managing the hospital think about whether it needs that much land. Its budget from the Government obviously needs to include the money to pay the land value tax. It is an entirely circular movement of money, but it makes the managers of everything think about what they are doing. The land is not a free resource, so they should be thinking about how much it is worth and how much they are using.

Q349 **Alison Thewliss:** Robert, should the Government be revaluing homes in England for council tax after the pandemic?

***Robert Palmer*:** Yes, and I would add Scotland as well. When it comes to Scotland, property taxation is a devolved matter. This is one of those things where it is almost universally agreed that our current property taxes in England, Scotland and Wales do not work. We have a regressive system where poorer people proportionately pay more of their income and more of the value of their property in tax than richer people, and there are also geographic variations. People in the north of England and the midlands are paying higher rates of council tax than people in London. There is quite a lot of consensus that we should think about revaluation.

We should also be a bit bolder—I can say this, not being an elected politician—and think about the idea of a more progressive and proportional property tax system. It works in places like the US. The Fairer Share Campaign has estimated that something like this could save 75% of households. We have a broken council tax system. It is obviously also linked into what people think about local government funding, which has been cut quite dramatically over the last 10 years. There are big questions. Wales revalued in 2005. It is totally possible and needs to happen. The system is just going to get more broken if nothing happens.

Q350 **Alison Thewliss:** Is it actually fixable, or are we beyond that point?

***Robert Palmer*:** I would argue that we should scrap stamp duty and council tax, and bring in a property tax based on the value of the property. If you cannot do those big changes, there are things such as revaluation, which I think would be important. You could do things like adding bands, which has been done elsewhere. Other countries manage to operate property tax systems that are much fairer than we have here in the UK.

Q351 **Alison Thewliss:** The Scottish Government ran a commission on local tax reform, which looked at changes in Scotland, and I think it advocated the abolition of council tax, but it is an incredibly difficult thing to do in practice. How would you make the system fairer than it is now?

***Robert Palmer*:** There are obviously a range of things you could do depending on how ambitious you were feeling. You could add extra bands to capture more of the higher-value properties. At the moment, in England, the difference in rate between each of the bands has to be the same. My understanding is that in Scotland there is more variation and more ability to vary that. That is something else you could do. Something that looked like scrapping stamp duty, which is fairly progressive but also gets in the way of our economy, and replacing it with a property tax would be a sensible thing to do.

As you will know as politicians, the challenge is the politics around this. People do not like council tax. They understand that it is out of date, but there is nervousness. The last time we had a major review of property taxes in the UK, we ended up with riots. This is a thorny, knotty challenge, but a lot of the expert view is quite consistent.

Q352 **Alison Thewliss:** Would you abolish both council tax and stamp duty and roll it up into one new tax?

***Robert Palmer*:** Yes. Again, I am referring to the work of other organisations, such as the IFS and IPPR. You would want to do something like that, because obviously a proportional property tax would end up with people in more expensive homes paying more. To some extent, part of the quid pro quo is you would be scrapping stamp duty, which is a progressive tax at the moment.

Q353 **Alison Thewliss:** Emma, in terms of property taxes, do you have any particular thoughts that have not been said already?

Emma Chamberlain: The only obvious one is principal private residence relief, which at something like £27 billion is quite a costly relief. That is a big exemption. It is quite difficult because people do not see their home as a financial asset, and if they want to move they normally need the proceeds of sale to go and buy their new house. We are quite generous in our complete exemption. Quite a few countries, like the USA, do not have an exemption but a rollover. That is something one could think about, although there are technical issues with that.

You could possibly do a substitute for stamp duty land tax. Instead of being taxed every time you move, even if you do not actually make a gain just on SDLT, you might say that if people move but make a large gain, over a certain amount per disposal, that gain, over a certain amount, should be taxed. That would not penalise people who have to move because they need a new job, but rather tax windfall gains on the main residence. Like all these things, it needs proper thought and integration into the tax system as a whole.

Dr Advani: My overall view from this discussion is that we started with the complexities of a wealth tax and how hard it was going to be to do that, and we have come back to the fact that there are a lot of challenges in the current taxes, including property tax. I agree with what has been said by essentially everybody at this point, which is that stamp duty does not really make any sense as a transactions tax. That is definitely a bad idea. We would much rather have something that is a property tax. Council tax looks a bit like that but is fairly ineffective at this point.

Lots of these things are things that lots of organisations have said; they argue slightly about the finer points on it, but broadly we all agree on the same direction of reform. Solving some of those challenges is really where the priority should be, and what this Committee should be focusing on in your report is that there are lots of problems in the current capital taxes, we broadly know what the right direction of reform is, even if there are some disagreements about finer points, and that grappling those challenges are the key things that you should be doing first.

Chair: I am afraid that brings us to the end of this session. I say "I am afraid" because it has been one of the more interesting discussions we have had in the Committee in recent times. It has been interesting because we have talked about a lot of new areas of potential taxation while also recognising that there are already wealth taxes, in terms of IHT and CGT and so on. It has been contentious, for sure, and the figures that were mentioned throughout the session were quite ambitious, such as the £250 billion over five years; it is quite a large scale that we have been considering. It is fair to say that, across the Committee, members probably have a fairly divergent set of views as to the desirability or otherwise of venturing down that particular route.

We can all agree this has been a very useful session just to demonstrate the very many aspects and complexities to considering this kind of proposition, with everything from the rates to the thresholds to the scope of any such taxes, as well as the complexity and the experiences of other countries that seem to have been less than satisfactory, but perhaps there are different models they could have tried that would have worked better. There is the issue of avoidance, or the wealthy perhaps migrating in the face of such a tax, as well as the arguments around a one-off tax versus an annual tax, and of course the discussions that we have had, which have been particularly interesting, around the existing wealth taxes and the deficiencies of those and whether that is an avenue that Governments and politicians might consider for reform.

One area that has not really been touched on so much, which I guess is in the nature of the panel, as we are the politicians, is that anything the Chancellor or any politician decides to go with will have to meet the test of being politically deliverable. It seems to me that the panel is saying that if large numbers and large amounts of money are to be raised, that probably means generally lower rates but a fairly wide base from which those amounts are sought. That will of course come with considerable political challenge. You have cast a huge amount of light on these really tricky questions that we have conjured with today, and we are all very grateful indeed to each of you for having appeared before us.