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WEALTH TAX COMMISSION REPORT - A POTENTIAL TAX ON WEALTH TAKES SHAPE

The highly anticipated report by the Wealth Tax Commission (the Commission) was published on 9 December 2020. The report contains recommendations as to whether or not the concept of a wealth tax in the UK is worth pursuing and, if so, on what terms. Made up of an international team of cross-sector experts, and headed by a professor of law, a professor of economics and a leading tax barrister, the Commission set itself the task of undertaking the most detailed analysis into the case for (or against) a wealth tax in half a century. The full report can be found here.

The report examines the case for both an annual and a one-off wealth tax. The concept of an annual tax gains little ground, with the report concluding that it would be better simply to fix our existing taxes on wealth (notably inheritance tax, capital gains tax, income tax – on investment income, and council tax). However, a one-off wealth tax is viewed much more favourably; the report notes that not only could it work in the UK but that, if properly constructed and implemented, it could raise significant amounts of revenue which are much needed in the current economic climate without, the Commission believes, leading to significant behavioural distortion or hardship.

The report stops short of making recommendations in relation to appropriate thresholds or rates of tax, expressly leaving those decisions to the politicians. However, it nevertheless contains some detailed modelling and the headline-grabbing numbers are that a 1% tax per year for five years on individual net wealth over £500,000 would raise £260bn. A one-off wealth tax on this basis is projected to be payable by 16% of UK adults, or 8.2m people.

KEY DESIGN RECOMMENDATIONS

Whilst the Commission offers no view on rates and thresholds, detailed consideration is given to how such a tax should be designed in order to be economically efficient, difficult to avoid and fair in the authors' eyes.

The key recommendations are:

- A one-off wealth tax should be assessed on an individual basis, although couples should be permitted to elect to be assessed jointly. Gifts made by a parent to a minor child would be aggregated with the wealth of the donor parent, but otherwise any wealth of a minor child would be taxed independently on that child.

- Individuals should fall within the scope of the tax on the basis of UK residence in accordance with the statutory residence test (with tapering provisions to provide for those who had more recently become UK resident and a "backwards tail" designed to prevent people attempting to avoid the tax by leaving the UK). In addition, non-UK resident individuals who own UK real estate (whether directly or through a property holding structure) should be subject to the wealth tax in relation to the value of that UK real estate.
- The tax should apply to all property belonging to an individual, wherever it is situated in the world. There are almost no exemptions, and none of those which might have been expected by some, in relation to an individual's primary residence, or pension pot. Assets held in a trust settled by someone liable to pay the wealth tax (even if they have been excluded from benefit by the terms of the trust deed) would also fall within the ambit of the tax under the proposals.
- The tax should be payable on net wealth, so debt (notably mortgage debt) would be deducted.
- To assist with liquidity issues (where people are asset-rich-cash-poor), a number of measures are suggested, including:
    - Any tax payable in relation to pension wealth should be only be payable out of the pension lump sum payable on retirement for those who are not yet at state pension age.
    - Making the tax payable over five years.
    - Individuals who would still struggle to pay because of liquidity issues should be able to apply under a statutory mechanism for further deferral.

OUR VIEW OF THE PROPOSALS

It is clear, not just from the length of the report and the huge array of detailed evidence papers that have been produced and which inform the conclusions of the report, that the recommendations contained in the report have been the subject of much deliberation and that the proposed tax has been carefully and thoughtfully crafted. The end result is intended to be fair, difficult (if not impossible) to avoid and easy both to implement and administer. This is admirable. Nevertheless, it presupposes that a wealth tax (or indeed any tax increase in general) is the "right" way to go either politically or economically and there will inevitably be those who will feel they would be unfairly penalised by any tax which is introduced along these lines.

The key issue is one of liquidity with the Commission admitting that, if the rates were set at 1% a year for five years for individual wealth over £500,000, then 570,000 people would be "liquidity constrained" (i.e. they wouldn't easily have available to them the funds necessary to pay the tax). While the proposed deferral mechanisms will help to alleviate these issues for many, it is nevertheless easy to think of individuals who would still struggle to pay the tax (owners of valuable homes, landowners (including farmers), and business owners to name but a few). And while the proposal is that the tax should contain features which would make it impossible for individuals who are currently resident in the UK to avoid it by leaving, it seems possible that just the spectre of a possible wealth tax (and the concern that a one-off event could become a more regular feature of UK taxation) could cause wealthy individuals to leave the UK, or decide not to come here in the first place, which would have a negative impact on our economy in the longer term.

WHAT NEXT?

It is worth noting that the report was not commissioned by the government. Indeed, not six months ago, in July 2020, The Chancellor of the Exchequer Rishi Sunak stated that he did not believe "that now is the time, or ever would be the time, for a wealth tax." However, since then the true cost of the ongoing pandemic, and the huge levels of debt incurred by the government in responding to the economic crises it has caused, have become ever more apparent. We all accept that the debt will need to be repaid at some point, somehow and that tax rises of some description are likely in the coming years. However, there are other ways to achieve this: the government has previously asked the Office of Tax Simplification to look at ways in which inheritance tax and capital gains tax could be improved (and, presumably, generate more revenue), and increases to income tax and VAT are also possible alternatives to a new wealth tax. The introduction of such a tax is therefore far from a foregone conclusion.

What course the government decides to pursue will eventually be a political decision, but what is certain is that the new evidence base provided by the Commission paves the way for a detailed conversation about the possibility of a wealth tax.

KEY CONTACT

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