Final Report

Wealth Tax Commission

A wealth tax for the UK: Frequently Asked Questions

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A WEALTH TAX FOR THE UK: FAQ ABOUT A ONE-OFF WEALTH TAX

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Wealth Tax Commission Final Report: Frequently Asked Questions

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About the Commission

What is the Wealth Tax Commission?

The Wealth Tax Commission was established in April 2020 to assess whether a wealth tax would be desirable and deliverable in the UK, prompted by the exceptional circumstances of COVID-19. The Commission is entirely independent from government and our recommendations have not been endorsed by HM Treasury or HMRC. Our aim was to provide policymakers with a solid evidence base and to deliver the first in-depth analysis of a wealth tax in the UK for almost half a century. To do this we worked with a network of international experts, including economists, lawyers and tax practitioners to study all aspects of a wealth tax, including issues of both principle and practice.

Who are the Commissioners?

The Commissioners are Dr Arun Advani (Economics Department, University of Warwick), Emma Chamberlain OBE (Barrister, Pump Court Tax Chambers) and Dr Andy Summers (Law Department, London School of Economics). We commissioned evidence from international experts including researchers from the Institute of Fiscal Studies, Institute for Government, Resolution Foundation and OECD; academics from the universities of Oxford, Birmingham and LSE; and practitioners and policymakers from around the world, including a former head of HMRC. This analysis, which is independent of our conclusions, was published in a series of evidence papers that are available alongside our Final Report.

What were your main recommendations?

We recommended that if the government chooses to raise taxes following COVID-19, it should implement a one-off wealth tax in preference to increasing taxes on work or spending. We specified a design for a one-off wealth tax that would raise significant revenue in a fair and efficient way, be very difficult to avoid, and would work in practice without excessive administrative cost. We did not recommend an annual wealth tax, which we concluded would be much more difficult to deliver effectively than a one-off wealth tax. Instead, we recommended that the government should reform existing taxes on wealth (meaning major structural reforms, not just minor tinkering).

Where can I find more information?

More information is available from our website, http://www.wealthtaxcommission.uk/. Here you will find a copy of our final report, A wealth tax for the UK (including an Executive Summary), and links to all of the evidence papers that were published alongside the report. You can download a video/podcast of the report launch, which was hosted virtually by LSE on 9 December 2020. The Commission also created an online 'tax simulator' where policymakers and the general public can model how much revenue a wealth tax would raise at different thresholds and rates: this is available at http://taxsimulator.ukwealth.tax/.

Who funded this work?

The main input to the project was the unfunded time of the Commissioners and contributors to the evidence papers. None of these parties received any personal remuneration for their work on this project. The project received financial support from the Economic & Social Research

Council (ESRC) (£106,000), the Atlantic Philanthropies Foundation (£100,000) and London School of Economics and Political Science (LSE, £20,000), for the purpose of employing research and administrative assistants to support the work of the Commissioners and contributors. In-kind editorial support was provided by the CAGE research centre at the University of Warwick. The ESRC grant also funded a small proportion (less than 0.2FTE) of the research time allocated by Arun Advani and Andy Summers towards this project; these funds were paid to their universities not to them personally. Emma Chamberlain provided her time entirely pro bono.

Top questions

What is a one-off wealth tax?

A one-off wealth tax is an exceptional levy based on the value of assets owned by an individual, minus any debts (i.e. net wealth). Its rationale is to respond to the extraordinary costs of COVID-19, if the government decides that it needs to raise additional revenue, by seeking a contribution from those who are best able to pay based on their wealth. It would be levied once only (so just one form to be submitted and one valuation) but be payable in instalments over five years. Those with low income or liquidity would be able to defer payment over a longer period. The relevant date for determining the value of your wealth would be a date fixed on or shortly before the announcement so no one could avoid or reduce their tax bill later through clever use of planning devices or emigration.

How would the tax work?

Under the design that we are recommending, the tax would be levied on an individual basis, although there could be an option for couples to be assessed jointly (with a combined allowance). It would only apply to the wealth that an individual owns above the threshold. So just for example, if the threshold was set at £1 million per person then someone with wealth of £1.2 million would pay tax at the specified rate on £200,000, not on the entire £1.2 million. If they were a couple, wealth tax would only be payable on combined wealth in excess of £2_million. 'Wealth' would be defined to cover all assets (including homes and pensions) but minus any debts such as mortgages. It would be paid by anyone who was tax resident in the UK on the assessment date (including 'non-doms') and also recent emigrants.

What threshold and rates are you recommending?

Our report does not make any recommendations on thresholds or rates because these issues must be decided by politicians. Our own preferences on these issues carry no special weight, and since we don't agree amongst ourselves it would not be possible for us to offer a collective view on this anyway! Despite widespread media coverage, we are not recommending a threshold of £500,000: that was just one of several examples that we gave in our report, and one of two that was included in our press release. The threshold could be as low as £250,000 or as high as (over) £10 million, if politicians so decided. We created a 'tax simulator' so that anyone can model their preferred thresholds and rates, available via http://taxsimulator.ukwealth.tax/.

How much revenue could it raise?

This depends on the thresholds and rates chosen. We are not recommending a particular revenue target. The table below shows some illustrative examples, but you can choose your own using our tax simulator at http://taxsimulator.ukwealth.tax/. Our revenue estimates are based on the best-available data on wealth in the UK. They also take into account all relevant behavioural responses (including legal avoidance and non-compliance) as well as the administrative costs of collecting and enforcing the tax. Consequently, these estimates provide the 'bottom line' that the government could expect to receive from levying the tax. The ONS has confirmed that all of the revenue from a one-off wealth tax would be 'scored' in the first year of liability, even if instalments were paid over multiple years.

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

Threshold per individual (£)	Annualised rate	Revenue after govt admin cost (£bn)
Flat tax at 5%		
10,000,000	1%	43
5,000,000	1%	52
2,000,000	1%	81
1,000,000	1%	146
500,000	1%	260
250,000	1%	387
Flat tax raising £250bn		
1,000,000	1.7%	249
500,000	1.0%	248
250,000	0.6%	247
Progressive taxes raising £250bn		
1,000,000	0.8%	249
2,000,000	1.6%	
5,000,000	2.4%	
10,000,000	3.0%	
500,000	0.6%	248
1,000,000	1.0%	
2,000,000	1.2%	
5,000,000	1.4%	
10,000,000	1.6%	

Notes: These revenue estimates account for 10% of tax revenue being lost to non-compliance, and for administration costs to government.
Source: Advani, Hughson and Tarrant (2020), 'Revenue and Distributional Modelling for a Wealth Tax', Wealth Tax Commission Evidence Paper 13

How many people would pay the tax?

This depends on the threshold chosen. The higher the threshold, the fewer taxpayers there would be. At a threshold of £500,000 per individual, there would be 8 million taxpayers (the top 17% of UK adults by wealth). But at a threshold of £1 million this would be reduced to 3 million taxpayers (top 6%) and raising the threshold to £2 million would mean that only 600,000 individuals (top 1%) would be affected. At a threshold of £10 million, there would be around 20,000 taxpayers, which is the top 0.04% of the UK adult population. Of course, if the rates are kept the same then the higher the threshold, the less revenue would be raised. Again, you can model different options using our tax simulator at http://taxsimulator.ukwealth.tax/.

Why are you recommending this tax now?

We are not arguing that a one-off wealth tax should be implemented immediately. In fact, we express no view on when (if at all) taxes should be increased. Our recommendation is that if the government chooses to increase taxes as a result of the pandemic, it should implement a one-off wealth tax in preference to other tax rises. In particular, a one-off wealth tax would be better for the economy than rises in income tax, national insurance contributions or value added tax (VAT), because unlike these taxes a one-off wealth tax would not discourage work or spending.

It would also help to ensure that all those who can afford to assist the recovery from COVID-19 make a fair contribution to the costs, based on their wealth.

How is your proposal different from an annual wealth tax?

An annual wealth tax operates very differently, because the amount of tax due must be reassessed every year, requiring new valuations and the submission of a new form each time. This means that administrative costs and behavioural responses (including scope for avoidance) are higher for an annual wealth tax than under a one-off wealth tax. For these and other reasons explained in our report, we are not recommending an annual wealth tax; we think that it would be better to reform existing taxes on wealth instead. All of the answers given in this FAQ refer only to the one-off wealth tax that we have proposed.

Why not just reform existing taxes on wealth?

We should do that as well! A one-off wealth tax would be an exceptional response to a specific crisis, aimed at raising revenue without discouraging work or spending. It would not fix the existing problems with inheritance tax, capital gains tax, income tax on investment income, or council tax. There have been lots of recommendations for reforming these taxes already, but for various reasons these have failed to gain political traction. Whether or not a one-off wealth tax is introduced, these barriers will need to be overcome. A one-off tax that all wealthy people have to pay would be much more difficult for lobby groups to oppose, particularly as it would be more obvious when someone is given an exemption and has thereby increased the burden on others.

Politics

How can we trust that this tax will be one-off?

The public understands that COVID-19 is a once-in-a-generation crisis, that may require an exceptional response. International examples of one-off wealth taxes levied in the past have invariably followed major crises like the World Wars. The fiscal impact of COVID-19 is on a similar scale. Politicians could help to reassure the public that the tax will not be repeated by explicitly calling it the 'Covid Recovery Tax' or similar. Beyond this, we think that it is up to politicians to decide how to 'sell' this tax effectively, if they decided that it was needed. We are optimistic that it would be possible to explain a compelling rationale for the tax so that people could trust in its unique purpose.

Has the UK ever levied a one-off tax before?

Yes. In 1981, Chancellor Geoffrey Howe applied a one-off tax on banks. Margaret Thatcher later justified the tax on the basis that the banks 'had made their large profits as a result of our policy of high interest rates rather than because of increased efficiency or better service to the customer'. In 1997, Chancellor Gordon Brown applied a one-off tax on recently privatised utilities. These precedents show that the UK is capable of levying taxes on a one-off basis without the temptation to repeat them and without doing undue harm to sentiment or future investment in the sectors to which they applied.

Wealth taxes haven't worked in other countries. Why would they work here?

The wealth taxes most often referred to as 'failures' (e.g. France, Germany, Sweden) were all annual, not one-off. It is true that annual wealth taxes have been abandoned in many countries over recent decades. Today only three OECD countries still have them: Norway, Switzerland and Spain. Of these, Switzerland's wealth tax is actually quite successful and raises significant revenue despite its low rate. But in general, the annual wealth taxes implemented to date have faced difficulties with high administrative costs relative to revenue and ease of avoidance. Both of these challenges are greatly reduced under a one-off tax. The tax that we have recommended learns from the successes and failures of other countries both in terms of one-off and annual wealth tax design. We explain all of the key differences in our report.

Would a wealth tax be popular with voters?

Polling carried out by Ipsos Mori in July 2020 showed that a wealth tax was significantly more popular than other ways of raising revenue. The poll asked which tax increases people would most support if the government decided to raise taxes. The most preferred option was a wealth tax starting at £1 million and applying to all assets (41%). This policy had almost twice as much support as increasing council tax on properties over £1 million (21%), and many times more support than increasing income tax on all earners (7%) or increasing VAT (4%). A wealth tax was still the single most preferred option amongst those who voted Conservative in 2019 (34%), and 67% of Conservative voters listed it in their top three options (compared with 82% of Labour voters).

But are wealth taxes only popular because people think they won't have to pay themselves?

In the Ipsos Mori poll, three times as many people supported introducing a wealth tax as supported raising the higher and additional rates of income tax. Less than 10% of respondents to this survey would have been liable for either of these taxes. Consequently, the extent of additional support for a wealth tax cannot be explained purely in terms of self-interest. Even when respondents were presented with the idea that houses and pensions would be included in a wealth tax, they still preferred this option over increases in tax on work or spending. Finally, not all taxes that other people pay are popular: inheritance tax has polled as the UK's most 'unfair' tax, despite being paid by only 4% of estates.

Hasn't the chancellor already ruled out introducing a wealth tax?

In July 2020, Chancellor Rishi Sunak stated that 'I do not believe that now is the time, or ever would be the time, for a wealth tax.' However, that was in the context of an annual wealth tax, whereas a one-off tax would work very differently. Moreover, as Lord Gus O'Donnell noted in the foreword to our report, two things have changed since July. Firstly, the predicted impact of COVID-19 on the public finances has doubled since then. Second, our report had not been published when the Chancellor made this initial statement. We have now provided a solid evidence base that would allow the Treasury to take another look at this policy in the specific context of a one-off wealth tax.

How would this tax affect different parts of the UK?

It is typically assumed that since house prices are highest in London and the South East, people in these regions will also pay the most wealth tax. This is only partly true. For example, 16% of taxpayers would be in London at a threshold of £500,000 per individual, though Londoners make up only 13% of the British adult population. At a threshold of £5 million, only 13% of taxpayers would be in London i.e. a proportionate share. There are two reasons why a wealth tax is less geographically skewed than, for example, a 'mansion tax'. First, a wealth tax takes into account mortgage debt: although house prices are higher in London, mortgages are also. Second, a wealth tax includes other sources of wealth. At higher thresholds business wealth becomes increasingly important, and this is less concentrated in the capital.

Economics

Would the tax harm investment?

The one-off wealth tax would be assessed on wealth at a fixed point in time, not on any future changes in wealth, so there is no disincentive to invest. The tax would reduce the money some people have available to invest, but this is true of any tax raising the same sum of money. Alternative tax rises would additionally distort choices. For example, income tax and national insurance rises would make it more expensive for businesses to hire workers. VAT rises would make spending more expensive. These make investment look less worthwhile. A one-off wealth tax would not have this distorting effect.

Would the tax make the UK a less attractive destination for the wealthy?

Liability for the wealth tax is based on residence status over a period before the tax is announced. This means that individuals who have been resident in the UK in the last few years would still have to pay it: leaving even before any announcement would not prevent liability. Since liability is only based on past residence, there is nothing to deter people from coming to the UK in future. Those arriving after the date of assessment, as well as those who have only lived here a short while, would not have to pay the tax. Consequently, a one-off wealth tax is better for encouraging wealthy people to relocate in the UK in future than increases to other taxes that would have to be paid by these new arrivals.

Would the tax reduce the incentive to save or become wealthy?

The amount of tax due would depend on wealth at a past point in time, not on any future changes in wealth. There is therefore no disincentive to save or otherwise increase your wealth after the assessment date. Changes in wealth after this date would have no impact on your tax bill one way or the other. This is fundamentally different to an annual wealth tax, which is reassessed every year.

What do economists think about wealth taxes generally?

It is a myth that economists are against wealth taxes: there are complex economic arguments for and against. Many economists are in favour. A recent poll of the world's leading academic economists found that (weighted by certainty) 65% thought a wealth tax would be effective at reducing inequality (13% disagree); and 48% said it would be 'an effective way to improve public finances after the COVID-19 crisis' (26% disagree). What's more, this poll asked about an annual wealth tax; the support for a one-off wealth tax is likely to be even higher. This is because if the tax is credibly one-off then it creates no economic distortions, and economists regard this as a crucial advantage of a one-off tax over other ways of raising revenue.

Would levying a one-off wealth tax risk a large shock to the economy?

Although assessed on a single date, the tax would be collected in instalments over a longer period (we suggest five years), so the full amount would not all be taken from the economy in one go. Our recommendations to provide a statutory deferral scheme for the 'asset rich cash poor' (i.e. people who are liquidity constrained) mean that there would not be any rush to sell assets. We also make no recommendation about the scale of the tax revenue that should be raised. In the end, taxes always involve taking money out of the private sector in order to transfer it to government for public spending or debt reduction. There is no avoiding this, but a one-off wealth tax would at least do this more efficiently than other taxes so there would be more money left overall.

How would this tax help with the UK's structural deficit?

A one-off tax would not directly help with a structural deficit, which by its nature needs ongoing increases in tax or reductions in expenditure. Such 'permanent' taxes include income tax, national insurance and VAT. A one-off wealth tax would delay the point at which such permanent changes – which create additional distortions and may slow an economic recovery – need to be made. In other words, a one-off wealth tax could assist the transition to longer-term structural reforms.

How much would the tax cost to implement?

We estimate that implementation of the tax would cost between £600 million and £3 billion, which is small as a proportion of the revenue that would be raised. There are some fixed costs of setting up the tax – for example IT systems for filing and valuation – which we calculate would total £580 million. There are other costs that depend on the number of taxpayers, for example staff costs of conducting audits. Such costs depend on the threshold chosen: at higher thresholds these costs are lower as there are fewer taxpayers, although also less revenue is raised (for the same tax rate). Overall, we estimate that across a range of thresholds, at a tax rate of 1% the total administrative cost is around 1% of the tax revenue raised, which is similar to the cost of collecting income tax via PAYE.

Fairness

What about people who can't afford to pay?

We take this concern very seriously and recommend three solutions. First, the standard payment period would be spread over five years, providing certainty and more time to pay for all taxpayers. Second, for anyone with pension wealth, the tax payable on this wealth would only be due once their pension was drawn or when they reached state pension age (if earlier). Third, for anyone who would still have difficulty paying the tax out of their income or liquid assets, we recommend a 'statutory deferral scheme' that would allow them to defer payment for as long as they remained liquidity constrained. This scheme would be designed to ensure that no one would be required to sell their illiquid assets – such as their home or business – in order to pay the tax.

Why not tax the wealth in businesses as well?

All businesses are ultimately owned by people. The wealth held in businesses would be taxed by taxing the owners. Business owners resident (for wealth tax purposes) in the UK would be liable to the wealth tax on the value of their shares or other business interests to the extent that their total wealth including these assets exceeded the threshold. We suggest that foreign shareholders could also be taxed on the value of their controlling shareholdings of UK private businesses (but not on their other wealth), to ensure a level playing field. Our proposal does not eliminate the need to find effective ways of taxing corporate profits of foreign-owned multinational companies, which the government will need to address as a separate issue.

What if someone's assets fall in value after the assessment date?

Once an assessment date has been fixed (which should be on or shortly before the date of announcement), valuations should generally not be adjusted for subsequent changes in circumstance otherwise the tax would be easy to avoid. Not updating values to take account of later rises in asset prices will usually be an advantage for taxpayers. However, if someone suffers a drastic subsequent fall in their wealth for reasons outside their control, we suggest that it would be possible to provide some relief against the tax due, in tightly defined circumstances.

Isn't this tax confiscatory?

We do not agree that levying a wealth tax is the same as confiscating someone's property. As others have observed: 'it no more follows that a tax on wealth has to be paid from wealth than that a beer tax has to be paid from beer'. The tax would be levied by reference to wealth, not on wealth itself. In most cases the tax could be paid out of income. In any event HMRC would not be permitted to 'confiscate' specific items of property. Having said that, we acknowledge the concern that if someone does not have enough income to pay the tax, they might feel they have no choice but to sell some of their assets. To cater for this, we recommend several measures to assist the 'asset rich cash poor', which we discuss in detail in our report and touch on above.

Isn't this tax double taxation?

It is worth remembering that a large proportion of wealth in the UK has been acquired as a result of asset price growth on main homes or in assets that have not been sold for a long time, and so have grown in value tax free. Other wealth has been accumulated through forms of saving that are exempt from tax, such as pensions and ISAs. For most people, it is therefore a convenient myth to claim that they have already paid tax on their wealth. It is true that some people's wealth may be accumulated out of income that has already been taxed when it was earned. However, this element of 'double taxation' is already an accepted feature of our tax system in the context of VAT, which applies to the spending taxed income. The alternative to a wealth tax would be to increase some other tax: for example, taxing new spending or work more heavily instead.

Are you trying to punish the wealthy?

A one-off wealth tax is not intended to 'punish' the wealthy or otherwise degrade their contribution to society. The tax is effectively blind to the source of wealth: it does not single out a particular group, whether they be business owners or landowners, self-made entrepreneurs or those with inherited wealth. Some people might prefer that the tax system targeted the 'undeserving' wealthy and spared the 'wealth creators'. However, we think that it is an advantage of a one-off wealth tax that it does not attempt to draw any such distinctions. The tax is focused entirely on an individual's ability to pay, rather than any judgement about how they have acquired their wealth. If we started down this route it would be very difficult to draw distinctions: for example, trying to determine whether some salaries are more 'worthy' than others.

Is this tax retrospective?

We recommend that the assessment date for a one-off wealth tax should be on or shortly before the date when the tax is announced. Although not formally retrospective, we accept that this could disrupt some people's prior plans and expectations. However, this is true of most tax reforms: the argument that 'if I had known this tax was coming, I wouldn't have saved/invested/worked as much' does not only apply to a one-off wealth tax. For example, an increase in the rate of capital gains tax applies to gains accruing on the asset long before the tax was announced. Inheritance tax changes often affect past planning if the death has not occurred. A rise in VAT would increase the cost of living for people planning to live off accumulated savings. In any case, it is hard to know what legitimate expectations anyone could form about future tax changes or more general life plans in circumstances of the largest fall in Gross Domestic Product (GDP) for three hundred years.

Would the tax cover wealthy foreigners as well?

We recommend that the tax should apply in full to anyone who has been resident in the UK for more than four out of the previous seven years (including anyone claiming 'non-dom' status), and at a reduced rate for more recent arrivals. Wealthy foreigners who are long-term residents of the UK would therefore be liable to pay. Non-residents would pay the one-off wealth tax on any houses and land they own in the UK, whether owned directly or through trusts or companies. We do not recommend extending the tax to other assets owned by non-residents, except perhaps in respect of foreign controlling shareholdings of UK private companies, which could help to ensure a level playing field with UK-owned businesses.

Is it fair that this tax will fall most heavily on those currently around retirement age?

Yes, we suggest that this is fair in the present circumstances. First, those currently around retirement age have, as a group, benefitted from a period of strong house price growth, generous occupational pension provision, and healthy wage growth, along with generous government policies such as free university tuition. These factors have enabled them to accumulate more wealth than other generations can expect to in future. Second, the pandemic has been economically most costly for younger generations, in an effort to protect older generations who are more at risk from the virus. Third, looking ahead, we are likely to be entering another era of very low interest rates, which will tend to benefit those who already have assets at the expense of those who don't. Fourth, any future tax rises on income will be paid primarily by younger generations. In this context a one-off wealth tax is fairer between generations than income tax rises alone.

Would the Queen have to pay?

We do not discuss this in our report. This would be up to the government. Currently the Queen and Prince of Wales pay income tax, capital gains tax and inheritance tax on their private wealth voluntarily in accordance with the 2013 Memorandum of Understanding on Royal Taxation. It would be up to the government to negotiate the position with the Royal Family in relation to a wealth tax. Even if they were required to pay the wealth tax, then like all other taxpayers under our proposal, they would be permitted to defer payment if they had insufficient income and liquid assets (cash savings etc.) out of which to pay the tax. Consequently, there is definitely no question of the Queen being required to sell Balmoral Castle!

Specific assets

Why do you recommend taxing all assets?

We argue that there are four good reasons for taxing all assets:

(1) **Horizontal fairness** – people of similar means should end up with the same tax bill regardless of the form in which they choose to hold their wealth. Individuals should not be taxed differently because (for example) one has their savings in a pension while the other has reinvested their savings in their business.

(2) **Vertical fairness** – exemptions distort how progressive (or otherwise) the tax is in practice, if wealthier people are more or less likely to own exempt assets. If we want to make the tax schedule more or less progressive, it would be better to do this by adjusting the thresholds and headline tax rates applied to all wealth, rather than exempting particular assets.

(3) **Revenue** – exemptions would reduce revenue compared with our baseline estimates. If the government is aiming for a specific revenue target, this means that somebody else will have to pay more. For example, for a flat rate tax starting at a threshold of £2 million per individual, exempting business assets would reduce revenue by 64%.

(4) **Avoidance** – even under a one-off wealth tax, which is generally much more robust to avoidance than an annual wealth tax, significant exemptions could facilitate avoidance through shifting the types of asset that people own, if these were trailed in advance of any announcement.

Would public sector pensions also be included?

Yes! Pension rights of any kind would be included, and they would all be valued on the same or an equivalent basis. Defined contribution pensions are easy to value as there is a pot of money allocated to the individual and records are kept by pension providers. Defined benefit schemes of the kind more often used in the public sector can be valued at the present value of the individual's future entitlement to income under the scheme. In particular, we recommend using the Cash Equivalent Transfer Value, which is already frequently used on divorce or for a transfer between funds. This would be the fairest measure because it is the closest equivalent to the present value of a direct contribution pension.

Why tax my pension when I was encouraged to save in it?

The government gives lots of tax incentives to act in certain ways e.g. ISAs for saving; enterprise investment scheme relief and business assets disposal relief (formerly entrepreneurs relief) for investment; and tax relief on pension contributions. The fact that assets qualifying for these schemes have already benefited from a tax preference does not seem to us a compelling case for privileging them further. Someone who has a large pension is better off than someone else who doesn't, all things considered. It would surely be unfair to exempt pensions but to tax people who save for their retirement by reinvesting in their business.

Why tax my pension when I might die before I ever get to enjoy it?

Defined contribution pots do not disappear if you die. Actually, if you die before you draw on it there is a tax-free pot for your dependants. And many defined benefit schemes provide additional death in service benefits. In any case, this argument would also apply to any other forms of saving, such as cash in the bank. Whenever we save, we are doing so to defer our enjoyment of the assets until later when we might need the money more – just like a pension. If you cannot tax any assets that people may not actually get to enjoy in future, then you would have to exempt all savings, not only pensions.

Why tax my pension now even though I can't access it?

You wouldn't have to pay any of the tax on your pension until you start drawing your pension or reach state retirement age (by which time you could draw your pension if you wanted to). At that point the tax – based on the value at the valuation date – would become due. Assuming you actually draw your pension at this time, the one-off tax can be taken automatically from the lump sum so you will not have to find the money personally, but you could choose to fund the tax out of different assets if you preferred. In the meantime, your pension pot can grow tax free. This approach means deferring some of the revenue from the wealth tax but we think that this is a fairer solution so that people don't have to find the money to pay the tax on pensions up front out of their other assets.

Why tax main homes even though they're not a financial asset?

Only the net value of homes would be taxable, after deducting any outstanding mortgage. It's true that a home is much more than a financial asset. However, exempting main homes would lead to serious unfairness for those who are yet to get a foothold on the property ladder, or are saving to move up it. Why should someone who chooses to live in a more modest home but has amassed large savings for their retirement, pay more tax than someone who has spent everything they have on their house? If the government wishes to exempt 'ordinary' levels of wealth then they could do this by raising the overall taxable threshold.

Why tax main homes even though it's not my fault it's gone up in value?

It's not your fault that your home has gone up in value but equally it has been lucky for you that it has. It means that anyone who already owned a house several years ago is much better off than those who are trying to get on the housing ladder today. The large rise in UK house prices over recent years is mostly due to economic factors that no individual can claim credit for: for example, the fall in interest rates and the fact that there are not enough houses. These windfall gains have gone entirely untaxed for most people, because main homes receive a special exemption from capital gains tax, as well as a larger value that can be transferred free of inheritance tax.

Would anyone be forced to sell their home to pay the tax?

No one would be forced to sell their home to pay the wealth tax. If you genuinely could not pay the tax out of your income and savings over the standard payment period of five years then a 'statutory deferral scheme' would apply under which the tax could be deferred until there were sufficient liquid funds available, for example from the proceeds of a later sale. We have tentatively suggested a generous test so that indefinite deferral would be available for anyone whose wealth tax bill was more than 10% of the combined total of their net income (after all other taxes) plus their liquid assets such as cash savings. This threshold could be adjusted by the government if it chose.

Why tax businesses?

Any tax rise affects businesses – often by reducing consumer spending or increasing their wage bill. If the government decides that tax rises are necessary in response to the costs of COVID-19, then a one-off wealth tax would be more efficient because it would not disincentivise future investment or spending. It is therefore more 'business-friendly' than alternatives that raise the same revenue. If the business owner were liquidity constrained according to the definition that we set out above, they could defer payment until later sale of the business, although in many cases the business will be generating enough profits to pay the tax out of dividends. Exempting business wealth would benefit the very wealthiest disproportionately: for example, it would reduce the tax due from those with wealth above £5 million by nearly 90%.

How would you value businesses?

All assets should be valued based on their open market value rather than a fixed formula or discount. The value of a person's stake in a listed or unlisted company would be the amount that they could obtain if they sold their shares in the open market, ignoring any value attributable to their ongoing personal involvement in the business. In our report we recommend that professional valuations are undertaken at a company level and then reported to individual shareholders with appropriate discounts for minority shareholdings. This avoids separate valuations having to be done on the same company, which would reduce administrative costs, increase consistency and reduce the scope for disputes.

How would you value household possessions?

We recommend that any single items worth less than £3000 each should be exempt from the wealth tax altogether, in order to make filing simpler and avoid unnecessary valuations. This would mean that for most people, there would be no need to value any of their ordinary household possessions. This exemption could also extend to other low-value items, for example legal claims against travel companies and builders. Individuals whose total wealth was above or near the threshold would be required to value any items likely to be worth above £3,000; however, it would not be necessary to list each item individually on the form because recording total values by asset class would suffice. A professional valuation would only be required for assets likely to be worth at least £10,000.

Avoidance

What if people leave?

People could not avoid the tax by leaving after – or even shortly before – the announcement date. An individual would be covered by the tax if they have been UK resident for a minimum number of tax years prior to the announcement. We suggest a threshold of four years out of the previous seven years. This means that liability would not be prevented if someone leaves in the year of announcement, or even in anticipation of it.

What if people shift how they hold their wealth?

This would not reduce the tax people owe, since our recommended design covers all types of wealth. If the government offered exemptions for some types of asset then there could be a problem if those exemptions were leaked in advance of the announcement date. However, shifting into exempt assets after the date of announcement would not work as the date on which wealth is assessed should be on or shortly prior to the date of announcement, so subsequent changes in composition of wealth would have no effect on the liability.

What if people move money offshore?

There would be no point in someone moving money offshore – even before the announcement date. This would not reduce their liability as the tax would be based on where the taxpayer lives (in particular, their tax residence over the preceding years), not their domicile or where their assets are located. HMRC also now have plenty of tools to track such transfers, as part of a global international compliance effort, and this is unaffected by Brexit. Indeed, people who tried to evade the tax in this way would end up paying higher penalties.

What if people stash money in companies?

Moving cash into a company after any announcement would have no effect on a person's tax liability. Even if these funds were moved prior to the announcement, the tax would apply to the value of the shares held by the individual. Therefore, moving cash into a company in exchange for the issue of more shares or debt would simply end up increasing the value of their shares. There would therefore be no point in attempting this tactic unless the shares were exempt from the tax, which highlights the need for a comprehensive tax base.

What if people stash money in trusts?

It would not be possible to avoid the tax by making gifts or transfers into trusts after the announcement date. Even if people had some advance notice of the tax and moved money into trusts before the announcement date, we have designed a regime for trusts that deals with this so it would not reduce the tax payable. In particular, we recommend taxing wealth held in trust where either the person who funded the trust (the 'settlor') or a beneficiary of the trust is UK resident for wealth tax purposes.

What if people give lots of money away to their children?

It would not be possible to avoid the tax by making gifts to their children after the announcement date, because by then their wealth tax liability would already be fixed. Even if they had some advance notice, gifts to minor children would not work because these would be included in the wealth of the parents. If people chose to make genuine outright gifts to their adult children prior to announcement of the tax then this would be effective to reduce their wealth tax liability; however, such gifts may well have capital gains tax and inheritance tax implications, as well as genuinely changing who has control over the wealth, so are not without other disadvantages for the original wealth holder.

What if people take out more debt?

Although debt is deductible under a wealth tax, taking out more debt typically has no effect on wealth tax liability, even if done prior to the assessment date. That is for the simple reason that when someone takes out a debt, they get something in return – and this something will appear on 'asset' side of their balance sheet – leaving no difference in their net position. For example, when a person takes out a mortgage over their house, they immediately incur a large debt (the mortgage) but also obtain a large asset (the proceeds of the loan, typically used to purchase the house). There is therefore no change in their net wealth unless they have spent all the borrowings prior to the announcement date.