TAX
COMMENTARY

# Proposed new one-off wealth tax to raise revenue in response to pandemic

COMMENTARY BY ELIZABETH HOUGHTON, 14TH DECEMBER 2020

The Wealth Tax Commission has released a report recommending a one-off wealth tax in the UK to raise revenue in response to the COVID-19 pandemic.

The Commission was founded in April 2020 and, despite its name, is not a government-appointed body. It was tasked with considering the principles, design and delivery of a wealth tax for the UK. The report considered a one-off wealth tax and an annual wealth tax. It concluded that a one-off tax would be fair, efficient and very difficult to avoid. The Commission did not recommend an annual wealth tax, but rather recommended wholesale structural reform for taxing wealth on a regular basis, including IHT, CGT and council tax. It said that existing taxes on the wealthy are "seriously defective, making them inefficient, inequitable and too easy to avoid".

The report concluded that a one-off wealth tax would be preferable to increasing taxes on work or spending, because it would be a more efficient and effective way of taxing the wealthy, and would be fairer than raising taxes on ordinary workers and consumers.

The Commission analysed possible changes to existing taxes, and compared how much revenue could be generated. It concluded that the scale of tax rises required would be extremely large, in order to generate similar revenue to a one-off wealth tax. In addition, such changes to income tax, NICs and/or VAT would fall disproportionately on ordinary workers and consumers. There would also be no efficiency gains because, unlike a wealth tax, such tax increases would also dampen incentives to work and spend, which are imperative to economic recovery.

The one-off wealth tax recommended was one which was:

- "credibly one-off"
- applied to all residents (including non-doms)
- had a comprehensive tax base which includes all assets except low-value items
- valued assets at their open market value
- allowed for deferral of payment where a taxpayer has liquidity issues
- avoided special exemptions and reliefs

The report sets out detailed proposals in relation to those individuals who would pay the tax, and the relevant asset base.

The report recommended that the wealth tax should be payable by all residents on an individual basis, rather than as a household. The tax would apply to all individuals who were currently tax residents in the UK, or had been in the previous 7 years. The Commission recommended a prorated charge could be applied to recent residents, tailing to nil for those who had arrived in the year of assessment.

The contemplated wealth tax would be based on the open market value of all of an individual's assets, except for low value personal items (worth less than £3000) on the basis that there would be disproportionate administrative costs for such assets. The Commission strongly urged against exempting specific assets from the tax base on the basis that it would create unfairness, reduce revenue and facilitate avoidance.

The report considered specific assets, such as pensions and main homes which are normally exempt under annual wealth taxes in other countries, and explained why those should not be exempt.

The liquidity issues that could, or might, be caused by such a one-off tax were proposed to be dealt with by permitted deferred payments over a 5 year period, without any penalty interest rates applying.

While the proposal for a wealth tax might seem radical, it is clear that the massive UK government borrowing is going to have to be paid for somehow. The numbers being suggested might give even the staunchest critic pause for thought; modelling suggests £260bn could be raised from such a tax. The two main benefits would be clarity and simplicity. Such a tax would be unprecedented, but that perhaps is a sign of the times.

Read the full report here.

For more information on our Tax practice, **please click here**.

*If you are viewing this document on LinkedIn, you can download it by clicking on the icon in the top-right-hand corner when in full screen view.*