

Whatever happened to the wealth tax?

A new wealth tax to counter the cost of the Covid-19 pandemic was the talk of the financial pages not so long ago. Now it has disappeared... or has it?

By the end of 2020, as the huge cost of the Covid-19 pandemic became clear, there was much discussion about the introduction of a wealth tax. It was given added impetus by the publication of a 126-page report from the Wealth Tax Commission, an independent think tank launched in 2020.

Although the Commission did not recommend a specific level of tax, it focused heavily on a one-off tax that:

- Applied on an individual basis;
- Was at a flat rate of 5% on wealth above £500,000;
- Would normally be payable as five annual instalments of 1% (plus interest); and, crucially;
- Would cover *all* wealth including the value of your home and your pension.

The Commission thought that this format would lead to about 8.25 million people paying the new tax, raising a net £260 billion for the Exchequer – at the time broadly in line with the estimated cost of the pandemic.

A wealth tax generally polls well with the public, but that is often thought to be because those in favour think it will not affect them. As soon as the home, savings and/or pension are included in the definition of wealth, enthusiasm starts to fade. The 8.25 million people within the Commission's proposals is close to double the current number of higher and additional rate taxpayers. To make matters worse, the National Audit Office's latest estimate (to July 2021) for the total cost of the pandemic is £370 billion.

The Chancellor has said he is against a wealth tax. However, his two 2021 Budgets will eventually raise tax revenue by nearly £50 billion *a year*, so in the long term the Treasury will be collecting more than the Commission's one-off proposal would have delivered. Other than on the fringes, the Labour Party has not backed the Commission's proposals. Instead, it has spoken about increasing taxes *on* wealth – for example, by bringing capital gains tax rates in line with income tax.

The spectre of a wealth tax seems to have evaporated for now, but tax increases (by stealth or otherwise) – and the consequent need for tax planning – have not.

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