Taxing wealth

The Green Party's proposal for a Wealth Tax on the top 1%

July 2014

Summary

- The Green Party proposes a Wealth Tax on the top 1% - UK individuals with assets of more than £3 million.
- Taxing the assets of the wealthiest at a rate between 1% and 2% would raise approximately £21 billion to £43 billion a year.
- The UK is the 7th richest country in the world but of the 32 members of the OECD only 6 countries are more unequal.
- With a resources boom at the top and a cost of living crisis at the bottom we think the time has come to introduce a tax on wealth to ensure the richest pay their fair share back to society.
- A Wealth Tax is one of a package of measures, including the introduction of a Living Wage and company-wide pay ratios, which the Green Party is calling for to address persistent inequality.

Introduction: the problem

Those who have the most pay the least back to society.

Levels of inequality in Britain today have reached epic levels. Food banks coexist with Ferraris. A resources boom at the top feeds a cost of living crisis at the bottom.

In May 2014 analysis by Office for National Statistics data by The Equality Trust revealed that the richest 1% of British households have the same amount of wealth as 54% of the population.[1] In the same month the Sunday Times reported that the 1,000 richest people in the country had doubled their wealth in 5 years.[2]

The UK is the 7th richest country in the world but that wealth is unfairly divided among its population.

Among the 32 members of the OECD only 6 countries are more unequal than the UK.[3] Only Portugal, Israel, the United States, Turkey, Mexico and Chile fare worse than we do.

The bottom 20% of the British population – over 12 million people – are poorer than their counterparts in Germany, France, Austria, Belgium, Sweden and Finland – taking 7th place. Yet Britain's richest 20% come 3rd behind only Germany and France.[4]

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[1] The Equality Trust, Richest 1% Has Greater Share of Wealth Than Half the UK Population, 15 May 2014: http://www.equalitytrust.org.uk/news/richest-1-has-greater-share-wealth-half-uk-population

[2] Oxfam and Church Action on Poverty, Below the breadline, June 2014: http://policy-practice.oxfam.org.uk/publications/below-the-breadline-the-relentless-rise-of-food-poverty-in-britain-317730

[3] High Pay Centre, What would the neighbours say? 16 June 2014, page 3: http://highpaycentre.org/files/What_would_the_neighbours_say.pdf

[4] High Pay Centre, What would the neighbours say? 16 June 2014, page 5: http://highpaycentre.org/files/What_would_the_neighbours_say.pdf

The living standards of the poorest 20% of the British population are actually much closer to those of Slovenia and the Czech Republic than they are to those experienced by people living in the North-West European countries we typically compare ourselves to.[5]

In contrast the richest 1% take 13% of total UK income – more than double the share that the top 1% take in the Netherlands or Denmark.[6]

Yet Britain's inequality problem is not just a matter of excessive earnings at the top and insufficient wages at the bottom. Wealth and the unearned income it provides is at the heart of the matter.

Wealth – the missing link

There are a variety of progressive policies that would help to reduce the gap in earnings between those at the top and those at the bottom. The Green Party has long called for:

- A living wage – to increase the wages of those at the bottom.[7]
- Company-wide maximum pay ratios to ensure the CEO gets no more than 10 times the salary of the lowest paid employee.[8]
- Progressive income tax – we would introduce a new higher rate of income tax at 50% for incomes above £100,000 per annum.[9]

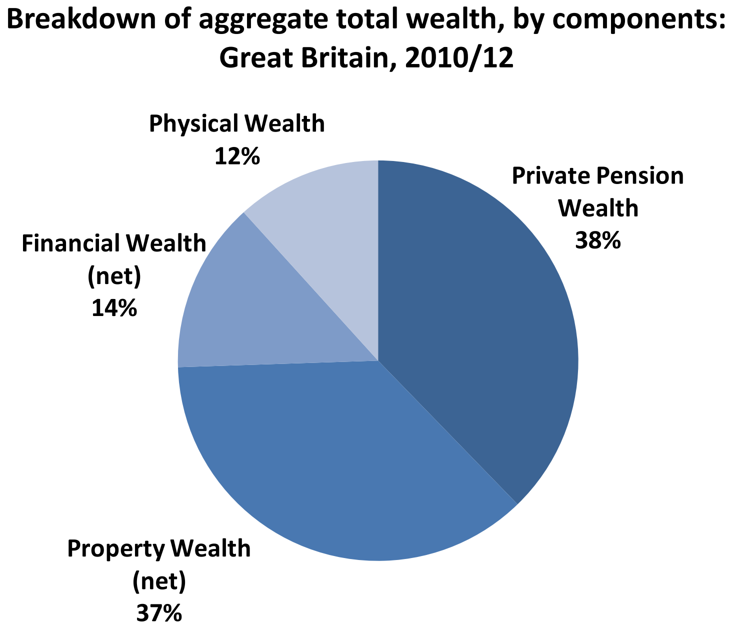
Yet even with progressive policies to tackle the disparities in income from work the problem of excessive wealth at the top would remain. Much of that wealth has little to do with hard work.

In Capital in the Twenty-First Century Thomas Piketty argues that in today's economy the rate of return on capital outstrips the rate of growth. Inherited wealth will therefore always grow faster than earned income.[10]

Wealth held by individuals in households comes in four main forms: property, financial, physical, and private pension wealth.

Most of the statistics that are available are household based, not individual based. In practice it makes little difference to the numbers affected or amounts raised; nearly all very wealthy households will contain just one very wealthy individual.

[5] High Pay Centre, What would the neighbours say? 16 June 2014, page 6: http://highpaycentre.org/files/What_would_the_neighbours_say.pdf
[6] High Pay Centre, What would the neighbours say? 16 June 2014, page 6: http://highpaycentre.org/files/What_would_the_neighbours_say.pdf
[7] Living Wage Foundation: http://www.livingwage.org.uk/
[8] Green Party, Manifesto for the European Parliament elections 2014, page 8: http://greenparty.org.uk/assets/files/European%20Manifesto%202014.pdf
[9] Green Party, General Election Manifesto 2010, pages 12 and 15: http://www.greenparty.org.uk/assets/files/resources/Manifesto_web_file.pdf
[10] Thomas Piketty (2014), Capital in the Twenty-First Century



Source: Official for National Statistics, Chapter 2: Total Wealth, Wealth in Great Britain 2010-12, 14 May 2014, page 3: http://www.ons.gov.uk/ons/dcp171776_362809.pdf

- 'Property' is mainly houses. It is net wealth that we should count – the value of the house less the mortgage.
- 'Financial' is stocks, shares and bank deposits etc.
- 'Physical' is other assets such as cars and household belongings.
- 'Pensions' refers to the capital value of the pension, not the annual income.

As the chart above illustrates, property and pensions each account for almost 40% of total wealth.

The total wealth of households in Great Britain was £8.4 trillion in 2006/08, £9.0 trillion in 2008/10 and £9.5 trillion in 2010/12 at then current prices.[11] In 2015 at the next General Election it is reasonable to assume that total wealth will stand at around £12 trillion at 2015 prices. All the subsequent calculations in this briefing are done for 2015 and in 2015 terms.

How wealth generates income

Wealth generates income. For example dividends are paid on stocks and shares while their value may go up, yielding an income when they are sold. Property normally increases in value. Interest is paid on bank deposits. In the case of pensions, the income is held within the pension fund before retirement, but the accumulated income and capital is paid out of the pension during retirement.

The rate of return on capital, the income that may be derived from it, varies widely, but it is common to assume an average real rate of return of around 5%.

[11] Official for National Statistics, Chapter 2: Total Wealth, Wealth in Great Britain 2010-12, 14 May 2014, table 2.1, page 2: http://www.ons.gov.uk/ons/dcp171776_362809.pdf

With assets of £3 million and assuming a 5% rate of return on capital you could expect your assets to grow in value by £150,000 per annum.

The solution: an annual wealth tax on the top 1%

In 2010/12 the wealthiest 10% of households owned 44% of total wealth.[12] The cut-off for being in the top 10% of households comes at around £1m.[13]

The latest data from the Official for National Statistics does not break down the top 10% but an earlier report from 2012 did. For 2008/10 the cut-off point for the 1% club was household wealth of £2.807 million.[14]

There is also data for the distribution of income at the percentile level (from HMRC tax records) and we can apply this distribution to the top 10% of wealth owners to estimate what each 1% percentile group will own, assuming that wealth is distributed in the same way as income. On the face of it, because wealth is generally distributed more unequally than income, this will underestimate the share taken, for example, by the top 1%. Applying this methodology, we can divide the 44% of wealth owned by the top 10% as follows:

Estimated wealth distribution of top 10%

Percentile range	Low point of range	Percent total wealth	Total wealth in band
90-91	£1 million	2.0%	£244 billion
91-92	£1.046 million	2.1%	£255 billion
92-93	£1.101 million	2.2%	£270 billion
93-94	£1.170 million	2.4%	£287 billion
94-95	£1.257 million	2.6%	£310 billion
95-96	£1.371 million	2.8%	£341 billion
96-97	£1.534 million	3.2%	£386 billion
97-98	£1.770 million	3.8%	£453 billion
98-99	£2.153 million	4.8%	£582 billion
99-100	£3.043 million	17.9%	£2152 billion
	TOTAL	44.0%	£5280 billion

As the table above illustrates there is a huge gulf between the top 1% and the remainder of the top 10%.

These figures are for household wealth but an effective wealth tax would need to be applied to individuals. In some cases households may consist of perhaps two more nearly equally individually wealthy individuals, and perhaps some others with a lot less wealth. This would make the distribution above slightly more equal. Given that we think these figures substantially underestimate inequality, we will assume that the household effect is not so great as to mean that the estimates of tax available are an underestimate of what is available.

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[12] Official for National Statistics, Chapter 2: Total Wealth, Wealth in Great Britain 2010-12, 14 May 2014, page 1: http://www.ons.gov.uk/ons/dcp171776_362809.pdf

[13] Official for National Statistics, Chapter 2: Total Wealth, Wealth in Great Britain 2010-12, 14 May 2014, table 2.9 implies that 9% of households have wealth above £1m, page 11: http://www.ons.gov.uk/ons/dcp171776_362809.pdf

[14] Office for National Statistics, South East has biggest share of the wealthiest households, 3 December 2012, page 2: http://www.ons.gov.uk/ons/dcp171776_289407.pdf

Why the 1%?
If the wealth tax applied to all of the top 10%, as has been suggested elsewhere[15], we would need to tax people whose assets exceed around £1 million. This would be about 3 million people, and for many of them their £1 million wealth is no more than a medium-sized house in London and two typical professional pension pots.

We think it is fairer to target the super-wealthy and apply the tax to the top 1% - households that have assets of over £3 million - around 300,000 people.

What should the rate be?
Most of the precedents for an annual tax are in the range 0-2%, with a clustering around 1%. France has a progressive system set between 0% and 1.8%.

Band	Rate	Taxable wealth (£billion)	Tax raised (£billion)	Number of people affected
£3 million and above	1.0%	£2152 billion	£21.5 billion	300,000
	2.0%		£43.0 billion	

We favour a 1% or 2% tax on individual assets of £3 million and above. This would raise approximately £21 billion to £43 billion a year.

An individual with assets of £3 million would pay between £30,000 and £60,000 a year as a result of our Wealth Tax. Most people with assets at this level will have sufficient income to pay the wealth tax from their current income. A very few people will have perhaps a very low income and a single rather illiquid asset, such as a house. Arrangements could be made in such cases to pay any accumulated wealth tax when the house is eventually sold, usually on the death of the owner.

International experience
France, Spain, Iceland, the Netherlands, Norway and Switzerland all levy wealth taxes of different kinds.

What the public thinks
In a YouGov poll for Greg Philo in 2010 74% of the public supported his one-off wealth tax proposal.[16] His proposal was for a much higher rate – 20% instead of the 2% we propose. It also applied to the wealthiest 10% of the population - instead of the top 1% we propose targeting. Given strong public support for a much more wide-ranging wealth tax there is every reason to believe that a wealth tax targeting the top 1% would receive strong backing from the public.

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This briefing was written and researched by Tom Sharman and Brian Heatley.

[15] Greg Philo, Deficit crisis: let's really be in it together, The Guardian, 15 August 2010: http://www.theguardian.com/commentisfree/2010/aug/15/deficit-crisis-tax-the-rich
[16] Glasgow Media Group: http://www.glasgowmediagroup.org/the-wealth-tax