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Briefing document

Wealth Tax Commission: Final report

Introduction

On 9 December 2020 the Wealth Tax Commission (WTC) published their final report on UK wealth tax. This note sets out background to the WTC itself, the government's position and summarises key points and conclusions from the final report.

The Wealth Tax Commission

The WTC is not a government body and contributors to the report include academics, lawyers and economists. Funding has been provided by the London School of Economics and the CAGE Research Centre at the University of Warwick. The Economic and Social Research Council of UK Research and Innovation is also listed as a funder on the WTC's website. UK Research and Innovation is a public body sponsored by the government's Department for Business, Energy and Industrial Strategy.

The Wealth Tax Commission's conclusions

The WTC consider an annual wealth tax to be a 'non-starter' in the UK, on the basis that it would have a higher administrative cost than a one-off tax and could face significant behavioural responses. Instead the WTC consider that the UK should reform its existing taxes that apply to wealth, such as income tax on investment income, capital gains tax, inheritance tax and council tax. The WTC comment that an annual wealth tax should only be considered if these taxes have been reformed and the government wish to implement a policy of redistributing wealth.

However, the WTC have concluded that a one-off wealth tax would be feasible as a way of raising significant revenue in a fair and efficient way. The WTC set out various characteristics which the tax should have to achieve its objective but importantly note that it would be difficult to avoid or mitigate if it was calculated based on wealth on a specific point in time, possibly around the time of its announcement, which may not be the case with an annual tax.

The WTC do not recommend a rate(s) or wealth threshold from which wealth tax could or should apply, but have researched how much a one-off wealth tax could raise. The WTC calculate that a 5% wealth tax on net wealth per individual in excess of £500,000 could raise at least £260 billion over a five year payment period (paid 1% per year), and on net wealth in excess of £2million would raise at least £80 billion.

Government response

The government may or may not respond to the report and/or consider the recommendations made further. The Conservative Manifesto did not include any pledges on wealth tax. It is notable that following publication of the initial report, on 8 July 2020 Chancellor Rishi Sunak commented *"No, I do not believe that now is the time, or ever would be the time, for a wealth tax."*

The final report

The report makes comments and recommendations across a range of areas. The remainder of this note summarises points from the final report that the WTC consider should be taken into account if a UK wealth tax is considered further.

Calculating wealth

- The WTC's expectation is that wealth tax would be applied to the net value of assets (i.e. after debts have been deducted), which is the usual way in which wealth taxes have been applied elsewhere in the world.

- The WTC consider that wealth tax should be applied to individuals, rather than to couples jointly or to households as a whole, though there could be an option for couples to jointly assess where desired and fair. One option could be to enable an individual to transfer any unused wealth threshold to their spouse.

- Whilst wealth tax would generally be applied on an individual basis, the WTC consider that wealth given to a minor child from a parent should be taken into account when determining the parent's net wealth.

Exemptions

- The WTC consider that there should no exemptions from the tax for particular asset classes such that there is a comprehensive tax base. They consider that all private assets should be within the scope of the tax, including homes, pensions, businesses, chattels (e.g. antiques, jewellery etc.) and intangible assets.

- The only exception would be for low value assets of perhaps £3,000 per asset, in order to reduce administrative costs.

- It should however be noted that the public attitudes research commissioned by the WTC concluded that there is support for levying a wealth tax on financial investments and property wealth other than the main home, but the public are generally opposed to applying a wealth tax to the main home, pensions and cash savings. The WTC do however comment that the research conducted did not refer to a minimum wealth threshold from which wealth tax would apply, which may have influenced results.

International mobility

- The WTC recommend that UK residents should be taxed on their worldwide wealth.

- If the wealth tax is levied as a one-off, the WTC recommend that there should be a 'backwards tail', to assess people who were UK resident but have since left the UK. The WTC give an example of assessing individuals if they were UK resident in four of the seven tax years preceding the year in which wealth is assessed, even if they are not UK resident in that tax year.

- The WTC consider that there should be relief for new arrivals to the UK. For example, individuals in their first year of residence could be exempt, individuals who have been resident for one previous year could pay one third of the full wealth tax liability and for two previous years two thirds of the tax liability. Full wealth tax liability would then be incurred from the fourth year of residency.

- The WTC do not consider that domicile should be taken into account, and so recommend that both UK and non-UK domiciled UK resident individuals should be subject to UK wealth tax on worldwide assets, subject to the application of any reliefs for new arrivers.

- In addition, the WTC consider that non-UK residents should be taxed on UK situated real estate, plus interests in companies that own UK real estate. They consider that it may also be appropriate to tax non-UK resident individuals if they have a UK resident spouse and/or have a controlling shareholding in an unlisted UK company.

Trusts

- The WTC recommend that trusts should be subject to wealth tax if the settlor of the trust is UK resident in the tax year in which wealth is assessed, regardless of i) where the trust is resident; ii) whether or not the settlor can benefit from the trust; and and/or iii) whether or not the trust is revocable. The trustees would be liable to pay the tax in the first instance, with the settlor being required to pay the tax if the trustees do not do so.

- If the settlor is non-UK resident in the tax year of assessment, the trust would only be liable to pay wealth tax if there is a UK resident benefit or to the extent the trust owns assets subject to wealth tax when owned by non-UK residents.

Valuation

- The WTC comment that, if assets are valued for wealth tax purposes at some point after the introduction of wealth tax is announced, people would take steps to avoid the tax. They therefore consider that, if wealth tax is introduced as a one-off charge, asset values and the wealth tax liability should be determined based on a date on or shortly before the introduction of a wealth tax is announced.

- If a one-off wealth tax payable over five years were introduced, the WTC consider that it should only be possible for an individual's wealth level to be reassessed in very limited circumstances where there has been a drastic fall in an individual's wealth since the valuation date for reasons outside the individual's control, due to exceptional and unforeseeable circumstances. This would exclude reassessment due to making gifts, avoidance and/or due to increased spending.

- The WTC consider that assets should be valued at their open market value (i.e. the price that assets would fetch if sold on the open market). The WTC comment that cash savings, pensions and listed shares can be valued based on readily available information. Housing and land should be valued by the Valuation Office Agency so that taxpayers do not need to incur the cost of valuation but it is noted that individuals should be able to challenge those valuations. Professional valuations would be needed to value shares in private companies. The WTC consider that the company would obtain the valuation and report values to individual shareholders.

- One option that it is suggested could be considered in order to reduce the administrative burden of valuing assets is assessing wealth into value bands, rather than requiring an exact figure for an individual's net worth.

Payment of the tax

The WTC consider that:

- Wealth tax due on value held in pensions by people below state pension age should be payable out of the pension lump sum which can be drawn on retirement.
- The one-off tax payable on other, non-pension, wealth should be payable over five years.
- If taxpayers would have difficulty paying wealth tax under the above terms taxpayers should be able to apply to defer payment of the tax under a statutory tax deferral scheme.

International comparisons

- The WTC comment that the number of countries with a wealth tax has reduced in recent years, from 12 countries in the OECD in 1990 to 3 in 2020. Wealth taxes have been abolished due to the economic impact of wealth tax, concerns around avoidance and evasion and due to the administrative costs of a wealth tax compared to the tax collected.

Find out more…

This note reflects the law in force as at and final report published by the Wealth Tax Commission on 9 December 2020. The report is available at https://deloi.tt/33VHDnO.

Please be aware that this note does not cover all aspects of this subject. To find out more about any aspect of the above, please discuss with your usual Deloitte contact. If you do not have a usual contact, please contact Michelle Robinson (michellerobinson@deloitte.co.uk). For further information visit our website at www.deloitte.co.uk.