Evidence Paper 3

Wealth Tax Commission

The economics of a wealth tax

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THE ECONOMICS OF A WEALTH TAX

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Wealth Tax Commission Evidence Paper no. 3

Published by the Wealth Tax Commission

https://www.ukwealth.tax/wealth-in-the-uk

Acknowledgements

We are grateful to Emmanuel Saez for discussing the paper and to Arun Advani and Andy Summers for comments. We thank the Economic and Social Research Council (ESRC) for financial support under the Centre for the Microeconomic Analysis of Public Policy (CPP) at the Institute for Fiscal Studies (grant reference ES/M010147/1).

The Wealth Tax Commission acknowledges funding from the Economic and Social Research Council (ESRC) through the CAGE at Warwick (ES/L011719/1) and a COVID-19 Rapid Response Grant (ES/V012657/1), and by LSE International Inequalities Institute AFSEE COVID-19 fund.

Abstract

This paper asks when a wealth tax would in principle be a desirable part of the tax system, setting aside the practicalities and politics that would be crucial in reality. The case for a one-off wealth tax is simple. If it were unexpected and credibly one-off – a major challenge in practice – this would be an efficient way to raise revenue and could be used to address existing wealth inequality. Whether such a tax is desirable hinges on whether it is considered fair, about which reasonable people will differ. Making the case for an annual wealth tax, which would affect future wealth accumulation as well as existing wealth, is less straightforward. It requires explaining why it is better to tax the same wealth every year – penalising those who save – rather than raising the same revenue by taxing all sources of wealth once when they are received (and/or when they are spent). Such a case can be made based on subtle arguments for why taxing wealth might help to ease the trade-off between redistribution and work incentives; and a wealth tax might also be justified if holding onto wealth, rather than spending it, benefits the holder or harms others. These theoretical arguments probably justify some taxation of wealth in principle, though we have little basis for judging the appropriate level, so only part of the theoretical benefit could be attained. It is questionable whether the achievable benefits outweigh the costs of an imperfect wealth tax in practice.

There are strong reasons to radically reform how we currently tax the sources/uses of wealth; this includes reforming capital income taxes in order to properly tax high returns. An annual wealth tax would be a poor substitute for doing that. But to the extent that taxes remain imperfect and that responses to a wealth tax would not affect revenue from other taxes (such as on income, expenditure and bequests), there may be a benefit to adding a wealth tax in order to diversify sources of revenue and prevent any one tax getting too high – though that must be weighed against the extra administrative burdens of having another tax.

1. Introduction

There is disagreement among economists about whether an annual tax on the stock of personal or household wealth should be part of a well-designed tax system.[1] Much of the disagreement stems from different views on the extent to which the practical challenges of administering such a tax can be overcome. But there are also differences of opinion on whether a wealth tax is the right tool to achieve public policy goals even if administered perfectly.

The variety of opinion can be seen in a 2019 IGM poll of leading US-based academic economists.[2] 73% of the economists in the panel agreed that a wealth tax that had been proposed by Elizabeth Warren (then running to be the Democrat nominee for president) would 'substantially decrease the share of wealth going to the top 0.1% of wealth-holders after 20 years' but 82% thought it 'would be much more difficult to enforce than existing federal taxes because of difficulties of valuation and the ways by which the wealthy can under-report their true wealth'. Where there was most disagreement was in relation to whether 'a public policy goal that could be accomplished with a well-enforced wealth tax could be equally accomplished with modifications to existing federal taxes' such as capital gains tax: 60% agreed, 27% disagreed and the rest were uncertain

This paper asks when a wealth tax is a good idea in principle. We are not constraining the discussion to wealth taxes only on the very wealthy: in principle, a wealth tax could apply to all wealth and all people. We put to one side the practical issues involved in designing and implementing a tax on wealth stocks, which are discussed in other papers in this series, and ask what might motivate such a tax in principle. We note, however, that practical issues are of crucial importance in assessing whether such a wealth tax could achieve the outcomes we will discuss below and in evaluating trade-offs between imperfect options. As such, we see this paper as providing a starting point for considering what a wealth tax may allow us to achieve, not a full analysis of whether such a tax is desirable in practice.

In public policy discussions, support for a wealth tax is often motivated by the observation that wealth inequality has been rising (Advani, Bangham and Leslie, 2020). Further, it is often noted that a significant proportion of wealth at the top stems from either business income, which tends to be taxed at lower rates than labour income, or inherited wealth, where it is recognised that much of the estates of the very wealthy often escape inheritance tax. However, these facts do not necessarily imply that a wealth tax is the best way to achieve possible policy aims – such as a desire to reduce the level or intergenerational transmission of inequality. In judging any specific tax, the key questions to ask are whether it helps to fulfil societal goals *and* whether it can do this better than feasible alternatives. The economic efficiency costs of raising revenue and redistributing hinge critically on the types of taxes we use and how they are designed.

It may seem obvious that taxing wealth is a good way to create a progressive tax system: aren't wealthy people better off almost by definition? But someone with high wealth at a given point in time is not necessarily better off over her lifetime than someone with lower wealth at the same point in time, or even at the same age. Differences in wealth can also reflect differences in the timing at which a given amount of money is received and spent, and therefore the desire to

[1] Saez and Zucman (2019) make the case for a progressive US wealth tax with a high threshold; Piketty (2014) supports a global wealth tax. Boadway and Pestieau (2019) and Kopczuk (2019) argue against an annual wealth tax. Scheuer and Slemrod (2020) provide a discussion.
[2] See http://www.igmchicago.org/surveys/wealth-taxes/. Figures quoted in the text are responses weighted by self-reported measures of confidence. When responses are unweighted the statistics (in the order cited in the text) are: 56%, 73%, 44%, 27%.

save. If we can separate out such timing effects from people's underlying lifetime resources, we might be able to redistribute more accurately and fairly than an annual wealth tax would.

In thinking about the relationship between different policies that could be used to achieve various goals – such as reducing inequality – it is useful to compare the effects of a tax on the stock of wealth to taxes on the capital incomes that can flow from wealth. A simple example illustrates the similarities and differences. Imagine there are two people who each own a £100 asset which, after one year, generates a known return of £5. The assets are being used simply to transfer earnings in one period to spending in another, and the £5 return merely reflects the compensation for delaying spending (termed the 'normal' rate of return). In this simple case, a uniform 20% capital income tax would be equivalent to a uniform 1% wealth tax: in both cases £1 of tax is due, amounting to 1% of the initial asset value or 20% of the return. Now imagine instead that one of the two assets generates a return of £20 – an above-normal ('excess') return. Excess returns result from various factors: the more successful asset owner may be more skilled at investing or have put more effort into choosing or utilising assets, may have had privileged access to a scarce opportunity, or may simply have got lucky. Excess returns to capital are skewed towards the top of the income and wealth distributions. The wealth tax would still raise £1 from this person, representing 20% of the normal return but just 5% of the overall return, whereas the capital income tax would raise £4 (20% of the return). As we discuss below, there is substantial and unsettled debate about whether to tax normal returns. However, there are strong arguments in favour of taxing excess returns and of taxing them at higher rates than normal returns. Wealth taxes do the opposite of this – they impose high tax rates on normal returns and do not tax excess returns.[3]

If all income from work and all excess returns to capital were taxed, and there were a functioning inheritance tax, what role would there be for a wealth tax? We will argue that there is a relatively straightforward case for a tax based on a one-off wealth assessment (whether or not it is collected as a one-off payment). If such a tax is unexpected and believed to be one-off – daunting requirements – it does not create economic distortions; it is a very efficient way to raise revenue. A one-off tax could be motivated by a desire to reduce current levels of inequality, some of which will have arisen as a result of the relatively low levels of tax on many forms of capital income in the past. It could also be linked to paying for the COVID-19 crisis. Both motivations may help to establish the move as credibly one-off. Whether such a tax should be enacted and, if it is, what assets it should apply to and at what rate, depends primarily on how it would affect expectations of future taxes and on what would be deemed fair. There will be a wide spectrum of views on the latter.

It is harder to make the case for a recurrent tax on the stock of wealth. We will lay out three types of argument: principled arguments for the desirability of taxing the normal return to saving; principled arguments based on there being negative externalities or private benefits that flow from wealth itself rather than the receipts that create it or the spending it pays for; and arguments based on using an annual wealth tax in cases where other taxes are preferable but enacting or fixing them is seen as infeasible.

The UK – like other countries – has a set of capital taxes with a range of problems.[4] Notably, some returns to capital are not taxed at all (such as capital gains that are unrealised at death)

[3] Of course, if those excess returns are saved rather than spent, then they add to the stock of wealth and will be taxed in subsequent years like savings from any other source. A wealth tax taxes excess returns only in the same sense that it taxes earnings: it is whatever is saved that is taxed.
[4] Mirrlees et al. (2011) provide a comprehensive discussion of the problems with capital taxes and how they could be fixed. Summers (2020), also in this series, summarises these issues. Adam and Miller (2020) discuss the particular problems and solutions with capital taxes as they relate to small business owners.

and some are taxed at preferential rates relative to labour income (including those of business owner-managers). Since capital income accrues disproportionately to the top of the income distribution, these features raise equity and efficiency concerns. While we do not have scope to discuss all capital income taxes here, we note that (in principle) it is possible to fix capital income taxes. If we chose to, they could be designed so that the normal return was untaxed (or taxed at a different rate to excess returns) – this already happens for private pensions, for example – and capital taxes could be made more progressive. The main reason to have a capital income tax is to tax excess returns; if this is the justification for an annual wealth tax, it would be a poor substitute because it does not do so.

We will also highlight the extent to which an annual wealth tax can be seen as a proxy for a well-functioning inheritance tax – which the UK does not have. Again, support for a wealth tax as a (distant) second-best hinges on there being political or practical constraints that mean it is possible to implement a wealth tax, but not possible to fix or implement better alternatives.

A theme throughout our discussion is the importance of being very clear about the aims of a wealth tax. Most of the rationales we lay out are a lot subtler than simply saying that wealth should be redistributed. And even where policy is motivated by a desire to redistribute wealth per se (for example because negative externalities associated with high wealth have been identified or because the origins of current wealth are deemed to be unfair), there are multiple policy options to compare. Determining the rationale for a wealth tax will be of first-order importance in determining its design. It matters for deciding, for example, whether it should be one-off or recurring, which assets should be included and how high the exemption threshold should be. A tax on housing wealth would be very different from a tax on all wealth, which in turn would be very different from a tax on billionaires. The rationale and resulting tax design also inform exactly what empirical evidence we would need in order to evaluate the potential effects of a wealth tax and whether the benefits would outweigh the costs. In this paper we seek to lay out the framework for identifying the potential rationales for a wealth tax. Also in this series, Summers (2020) considers alternative policies that, to varying degrees, tax wealth, and Advani and Tarrant (2020) summarise the empirical evidence on behavioural responses to a wealth tax.

The paper is structured as follows: Section 2 discusses the drivers of differences in wealth and capital incomes, as background for considering how they should be taxed; Section 3 sets out the (catholic) normative framework we adopt; Section 4 discusses when an annual wealth tax might be desirable and Section 5 when a one-off wealth tax might be desirable. Section 6 concludes.

2. What drives differences in wealth and capital incomes?

In broad terms, we can think of the **sources of wealth** as earnings, gifts and inheritances received, and returns to wealth already held.

The final **uses of wealth** are consumption, gifts given and bequests.[5] In that sense, therefore, all wealth represents future consumption, either by the wealth holder themselves or by the beneficiaries of their largesse.

In a mechanical sense, **differences in wealth** holdings across the population arise because people vary in how much they have received from those different sources and how much of those receipts they have so far used up.

A large part of the variation in wealth across the population at a point in time reflects age (see Advani, Bangham and Leslie, 2020, for UK statistics on this). Most people build up wealth through their working lives, peaking around retirement age and then running it down and/or passing it on. So even if everybody had an identical life course, receiving the same amount and spending the same amount at each age, wealth would look quite unequal across the population as a whole simply because some people were in their 20s loaded with student debt while others were in their 60s having built up a pension pot and paid off most of their mortgage.

But wealth is also unequally distributed within age groups. Some people earn, save and inherit more than others and earn higher returns to their assets, and some spend their money later in their lives than others or bequeath more of it. This reflects a combination of differences in abilities, preferences, needs, opportunities and luck – and decisions can also reflect different expectations of future receipts and needs.

Both the economic efficiency and the perceived fairness of taxing wealth can depend on all these factors: the source of the wealth and why one person's wealth is higher than another's.

One aspect of this is worth exploring in more detail, as it will be central to the rest of this paper: variations in the returns to wealth already held.

The capital incomes that flow from wealth can take various forms, including dividends, capital gains, interest income, rental income and business profits. The return to wealth can also take the form of in-kind services from durable goods such as owner-occupied housing, cars and artwork. Returns to capital can reflect different things, which again matter for tax design:

- The **normal return to capital.** This describes the return that just compensates for a delay in consumption (without any additional return related to risk-taking, for example). That is, the normal return is how much you would need to earn in order to make you indifferent between spending the money today or spending it in future.
- **Luck** in the outcome of risky investments. Since people generally prefer a safe bet, higher-risk investments will generally only be attractive if they offer a correspondingly higher expected return, or **risk premium**; so those who invest in risky assets can earn above-normal returns on average (not just if they happen to get lucky).

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[5] We mean this in a purely arithmetical sense: we return later to the question of whether wealth has benefits to the holder beyond being able to spend it or give it away.

- **Economic rents**, which are a return greater than that required to make an investment worthwhile and generally reflect a factor in limited supply, resulting for example from market power or private information.

- **Effort and skill**. Some of what appears as capital income will directly reflect the returns to labour to the extent that people are remunerated in the form of capital income.[6]

We will refer to all differences from the normal return as 'excess returns' (negative if an asset yields a below-normal return). In practice, capital incomes will often reflect a mix of sources. For example, private pensions – the largest component of UK wealth – will largely reflect labour incomes and normal returns to those incomes. But for some people, pension assets may incorporate significant excess returns, which in turn could result from some people being better at choosing investments and some people getting lucky. Some houses will have amassed large capital gains as a result of being located in an area that has become more attractive, while others will have risen in value as a result of renovation. Some business assets will be valuable both because their owners were highly skilled and put a lot of effort into building a business and because the business had a monopoly.

In the following sections we will discuss how these issues feed into how capital stocks and incomes should be taxed. As we discuss the case for various types of tax treatments of capital stocks and incomes, we will highlight how these can be applied to durable goods. Durable goods (or durables, for short) are goods that deliver a stream of consumption services (in kind) over time, such as housing, cars, artwork, household appliances and furniture.[7] Buying a durable good for one's personal use is consumption expenditure, i.e. spending for the purpose of consumption; strictly, the consumption is the stream of services enjoyed, rather than the upfront acquisition.[8] Buying a durable is also a form of investment spending, where the asset being purchased – the durable good – delivers a stream of returns at least partly in kind rather than in cash.[9] Buying a durable good does not immediately diminish one's wealth; it merely converts it from one form (money) to another (the durable). A durable good is thus both a consumption good and an asset. As such, when considering how to tax consumption, investment and wealth, one must consider how to apply that tax treatment to durable goods.

As with other assets, with well-functioning markets the price of a durable good should equal the present value of the stream of returns it is expected to yield (adjusted for any associated risk). Since durable goods yield consumption benefits, we should expect them to yield a lower (risk-adjusted) financial return than other assets, so that the (risk-adjusted) total expected return is the same. This implies that if someone buys a durable good (say, a boat), we would expect her

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[6] For example, most UK company owner-managers pay themselves mainly in the form of dividends and/or capital gains, rather than through salary, because doing so brings a tax advantage (Miller, Pope and Smith, 2019).

[7] A useable life-span of at least three years is frequently, but arbitrarily, used to define whether a good is considered 'durable'.

[8] A note on terminology: 'Consumption' is the enjoyment of a good or service. 'Expenditure' (or spending) is purchases. This can be consumption expenditure, i.e. purchases of goods or services for consumption, but also includes other spending such as work or business expenses and investment expenditure, i.e. purchases of assets that yield future returns. In this paper we sometimes refer loosely to 'consumption' or 'expenditure' in line with common usage to avoid cumbersome repetition of 'consumption expenditure'; we are more precise where the distinction is important.

[9] The stream of returns coming at least partly in kind distinguishes durables from purely financial assets, which yield a stream of financial returns (which might then be spent on consumption) rather than in-kind consumption services; though it is possible to sell the stream of consumption services (as when property is rented out), and durable goods can yield financial returns as well (most obviously capital gains, if they rise in value).

wealth to diminish relative to those holding their wealth in other forms (say, a pension): the durable good might depreciate, or it might simply not yield financial returns as high as alternative assets. That is, even though the initial purchase of a durable good means getting access to a future consumption stream without necessarily immediately diminishing one's wealth, we can think of a durable good owner as gradually consuming her wealth.

In any particular case, of course, upside or downside risk might materialise such that the stream of services provided turns out to be more or less valuable than expected at the time of purchase. Even if the stream of services itself is known with certainty, the present value of that stream of services – the asset's value – will rise if interest rates fall, as they have in recent years (see Mulheirn, 2020): the right to a given stream of future services is more valuable today if alternative assets will not yield as much and so cannot pay for services of the same value. Vice versa if interest rates rise. And as with other assets, investors can earn excess returns not merely because they are lucky, but because they use their skill or effort to choose or improve an asset, or because they receive economic rents (e.g. through monopoly power in the market for that durable).[10]

Since the price of a durable reflects the stream of consumption services it is *expected* to yield, taxing the purchase of durables is equivalent in (risk-adjusted) present value terms to taxing the stream of consumption they are expected to yield. If we are content to tax expected consumption – excluding any excess returns to durable purchases – then their tax treatment is therefore straightforward: purchases of durables should be made out of after-tax income (with no deduction for the 'investment cost') and should be subject to VAT. Nothing more is needed. The taxation of durables is more complicated if we wish to tax excess returns to spending on durables, tax wealth (or the normal return to investment), or introduce/increase a consumption tax and apply the tax rise to future consumption that has already been paid for, not just future purchases. Doing any of those accurately would require a (possibly annual) valuation of the capital or rental value of the durable. In the following sections, as we discuss the cases for different types of taxes, we will highlight the implications for the taxation of durables.

[10] Note, however, that it is perfectly possible to have an expected capital gain on a durable as well as the stream of consumption while still earning only a normal return on the purchase. For example, if the rental value of housing is expected to rise steadily over time (perhaps because of rising demand for housing and/or restrictions on supply) and maintaining the physical condition of buildings is cheap, then we can expect properties to rise steadily in value as well as providing somewhere to live. But the corollary is that if that expected rise in value is priced in correctly, then current purchase prices should already be high relative to current rents. So buying housing might yield an expected capital gain, but would be expensive in the short term relative to rents. In the stock market this would be familiar as expected future profit growth leading to a high current price-to-earnings ratio. (In practice, of course, the relationship between property prices and rents will also depend on all the other costs and benefits of owning vs renting property, such as security, flexibility, maintenance costs and hassle, various risks, and tax treatment – and markets might not function as well as assumed here.)

3. How to evaluate a wealth tax

Before turning to consider how taxes can be designed to achieve various possible policy aims, we summarise the normative framework underlying our analysis.

The canonical approach in modern economics is to design taxes to maximise social welfare, subject to a set of incentive constraints (which capture how different people respond to taxes) and a government budget constraint. Social welfare is a weighted sum of people's lifetime well-being, where the weights reflect the degree of aversion to inequality of well-being.

This framework provides a rationale for redistributing from those with high lifetime well-being to those with low lifetime well-being, both to the extent that (other things equal) an extra £1 is less valuable to those who already have a lot, and to the extent that we care about inequality of well-being per se. These benefits of redistribution must be balanced against the disincentive effects of taxation in shrinking the overall pie: we will wish to do more redistribution the more concerned we are about inequality (for both of the reasons mentioned) and the less people respond to taxation.

In the simplest models, well-being is assumed to depend on people's consumption and leisure time. No-one doubts that in reality well-being depends on many other things, including, for example, health and family relationships. The purpose of a model is not to reflect all aspects of reality, but to pick out only the minimum needed to provide an insight into the problem at hand and to abstract away from the rest of complicated reality so that the model is tractable and the driving forces at work are transparent. To shed light on different aspects of the tax design problem, models do sometimes incorporate other relevant features, such as:

- reasons people make gifts and bequests (getting a 'warm glow' from giving can imply subtly different policy conclusions from valuing whatever the recipient values for himself, for example);
- people caring about their relative status, not just their own (absolute) living standards;
- whether people value holding wealth over and above valuing the consumption, gifts and bequests it can finance.

Likewise, assuming that the government should aim to maximise a weighted sum of people's lifetime well-being is a decent starting point and a useful modelling device, but hardly the final word in policy objectives. An older tradition in economics seeks to tax people based on (acceptable measures of) 'ability to pay', which often coincides with lifetime well-being but can be subtly different (Kay, 2010, is a thought-provoking discussion). And across welfare economics and political philosophy, many other normative considerations are raised, which economists have had varying success in integrating into theoretical models. The most commonly cited in economics is 'horizontal equity' – that is, treating similar people similarly (the devil of course lying in what constitutes 'similar'). Others include respect for liberty and for property rights; equality of opportunity and minimising (dis)advantages beyond people's control while making them responsible for things within their control; rewarding (or penalising) moral (immoral) or beneficial (harmful) behaviour; respecting legitimate expectations and avoiding retrospection; concern for due process; and transparency. These various ideas are interrelated in numerous ways, and more could be added.

Often these various objectives turn out not to yield conflicting policy prescriptions in practice. But sometimes they do. In this paper we do not espouse a single preferred view or model. Our starting point is informed by the canonical approach, since that is the basis of much economics research and remains a powerful tool for analysis. But we liberally bring in other normative considerations and different forms of preferences and behaviour where we think they produce a potential rationale for or against wealth taxation.

4. When is an annual wealth tax desirable?

Many of the common motivations for a wealth tax relate to concerns about the current wealth distribution and how it arose. These can, in principle, be addressed directly through a one-off tax on existing wealth holdings, and we return to that in the following section.[11]

Here we consider the circumstances under which it would be appropriate to operate an annual wealth tax. This is different from a one-off tax in important ways. Notably, an annual wealth tax would capture not only existing wealth holdings but also wealth that is accumulated in future. This section therefore focuses on the properties of the different ways in which future incomes and wealth can be taxed, setting aside for now the question of what to do about existing wealth inequalities. This section can be thought of as conducting the following thought experiment: imagine initially everyone starts with equal wealth, perhaps as a result of a one-off wealth tax. People will accumulate wealth in future and wealth will become unequal as people earn, save and inherit different amounts; as discussed in Section 2, wealth will differ across people and over time for a number of reasons. Setting up a tax system for the long run today, what should we do? (In the following section we will return to discuss the merits of an annual wealth tax as a way to tax existing wealth when a one-off tax is not possible.)

4.1 A baseline case with no role for an annual wealth tax

To illustrate that a wealth tax is not necessarily a sensible way to seek to redistribute from rich to poor, consider the following simple scenario (that we will make more realistic as we work through the section). Imagine that people were only saving in order to be able to spend their income at a point in time that was different to when the income was received, there were no inheritances or bequests, and all savings earned the same rate of return (i.e. the normal return). With initial wealth equal, no inheritances or bequests, and all assets earning the same rate of return, differences in wealth across the population at any point in the future would only reflect differences in earnings, saving and spending.

It might appear that taxing savings is an effective way to redistribute—after all, aren't people with large savings wealthy almost by definition? The short answer is no. Someone with savings does not necessarily have a higher lifetime income than another person without savings. The two might earn and spend similar amounts over their lifetimes, but at different times: one earns his money when young and saves it to spend when he is old, while for the other the timings of earning and spending are close together. We can tax people on their total resources by taxing their money at its source (taxing earnings) or when it is finally used for consumption (taxing expenditure). We can tax better-off people more heavily by making the rate schedule applied to earnings or expenditure more progressive. If – given what we already know from their income and expenditure – people's saving decisions tell us nothing more about their underlying lifetime resources or well-being, just about their taste for consuming tomorrow rather than today, then taxing savings cannot help us to target people who are better off over their lifetime more accurately than taxing earnings or expenditure. By taxing the normal return to savings, we are

[11] Note that to the extent that current stocks of wealth create future returns – including excess returns that may be higher for those with higher stocks of wealth – we consider how to tax them in this section. We will argue that all excess returns should be taxed, however they arise.

not taxing the better-off; we are taxing those who spend their money tomorrow rather than today.[12]

That seems both unfair and inefficient, unless there is a relationship between when individuals choose to spend their money and other attributes that might be a basis for taxation, such as their underlying earning capacity.

Broadening the tax base to include savings might seem like it allows us to reduce tax rates on earnings and reduce disincentives to work. But work decisions involve trading off consumption against leisure. If someone is working in order to finance future consumption, then taxing savings — reducing the future consumption that can be bought with earnings — weakens work incentives just like taxing earnings directly. Why discourage work more among those who prefer to consume the proceeds later? Moreover, when taxing savings, the tax on future consumption becomes greater the longer consumption is delayed, as the same wealth is taxed over and over again and the effective tax rate on long-delayed consumption becomes extremely high. The effect on incentives for young people to save for their retirement, for example, can be dramatic. For someone saving money to spend in 40 years' time, with a 5% annual rate of return, a uniform 1% annual wealth tax would reduce the final value of their savings by about a third, and a 2% annual wealth tax would reduce it by more than half – on top of any tax already levied on the return.[13] When there is no equity benefit to taxing savings, why add the additional efficiency costs?

This simple scenario provides a benchmark in which there is no role for a wealth tax.[14] But it is only a starting point. It assumes away many of the things that motivate calls for a wealth tax in reality. Perhaps the most obvious objection to the baseline case is that, in reality, differences in wealth (even at a given age) do not just reflect differences in the amounts people have earned and saved during their lifetimes. Some wealth is inherited, which might be seen as a stronger (or weaker) candidate for taxation than earned wealth. Some income is not taxed in full when it is earned. Some people have earned higher than normal returns to their capital. The following subsections consider whether any of these features of reality provide a case for taxing wealth. In summary, we will argue in Sections 4.2 and 4.3 that for those purposes it would be better to tax inheritances and incomes, including excess returns to capital, when they arise or when they are spent, not via a wealth tax, which is often a poor second-best policy. That is, under certain assumptions (which we relax in Sections 4.4 and 4.5), the set of policies that provides the most efficient way to meet revenue and distributional goals is: a tax on labour incomes, a tax on excess returns to capital and, if deemed desirable on fairness grounds, taxes on existing wealth (which could, but need not, take the form of a one-off wealth tax) and/or on gifts and inheritances.[15]

A second limitation of our benchmark is that it assumes idealised taxes which apply to *all* income, consumption or wealth, and that people only respond to these taxes by adjusting their overall income, consumption and wealth. In reality, people can sometimes respond in other ways: by shifting money around or by tax avoidance or evasion. In Section 4.4 we consider the implications of these other ways that behaviour might respond to taxes, and suggest a possible role for a wealth tax in a case where two imperfect taxes may be better than one bigger imperfect tax.

[12] Atkinson and Stiglitz (1976), Chamley (1985) and Judd (1987) are the classic papers making essentially this argument, though in somewhat different formal models with different technical assumptions. In the following sections we address the main situations in which the key assumptions do not hold.
[13] Source: authors' calculations using the methodology in Adam and Shaw (2016) and the accompanying spreadsheet. See that report for further analysis of the effects of taxes and charges on saving incentives.
[14] For a discussion of neutrality as a benchmark, see Chapter 2 of Mirrlees et al. (2011).
[15] Note that a tax on earnings, excess returns and existing wealth is equivalent to a consumption tax.

In any given year, people with more wealth are likely to be better off than people with the same income but less wealth. Being wealthier than someone else with the same income in that year indicates that you are likely to have had a high income in other years as well. But we tax income in every year. To the extent that we can do that comprehensively – and taking into account the issues raised above – we will be taxing people according to their lifetime income. The challenge raised by our simple example therefore remains: what is gained by taxing people more if the interval from receiving income to spending it is longer?

The challenge is a powerful one, but it is not unanswerable. Economists have argued that there are reasons wealth might indicate ability to pay over and above the flows of income, expenditure and inheritances; that taxing wealth might help to ease the trade-off between redistribution and work incentives, or reallocate capital to more productive uses; and that concentrations of wealth might be harmful to wider society. In short, that there would be reasons to tax stocks of wealth even if we taxed flows perfectly. Section 4.5 discusses the principled arguments for a wealth tax.

4.2 Taxing excess returns

In practice, there is substantial heterogeneity in returns to capital, even conditional on labour incomes (Piketty and Saez, 2013; Saez and Stantcheva, 2018; Fagereng et al., 2020) – that is, not all returns to savings are normal returns. As set out above, excess returns can reflect a number of different things, including economic rents, returns to risk and disguised labour income. There are strong reasons to tax excess returns. Specifically:

- It is economically efficient to tax rents at arbitrarily high rates because doing so should not alter behaviour and therefore not create a distortion.[16] Rents are pure profits that arise when a resource generates a high return relative to its next-best use. Rents generally arise from a factor being in limited supply, whether that is land or another natural resource, government-induced restrictions such as taxi licenses, monopoly power, unique ideas and brands (including those related to innovators, artists, sports stars and firms). A tax that is only levied on the excess income over the next-best use should not distort behaviour because the taxpayer will still prefer to keep using the resource for the same purpose.

- A tax on excess returns would partly fall on the risk premium – i.e. on that part of the return that compensates an investor when returns are uncertain. Standard economic theory suggests this need not create a distortion to economic activity as long as downside risks are cushioned as much as upside risks are taxed (Domar and Musgrave, 1944). In practice, this means that a tax on positive returns to risky investments need to be accompanied by provisions that allow losses to be offset as freely as possible for tax purposes.[17]

- To the extent that excess returns to capital reflect work done, both fairness and efficiency suggests we should tax such returns at the same rate as regular labour income. Excess returns can reflect returns to work where labour income is being ‘disguised’ (for example a company owner-manager may pay herself in dividends or capital gains rather than through a salary) but can also directly reflect the returns to effort and skill (for example, excess returns may reflect skill in choosing the best investments or effort into

[16] Note that a tax on rents can distort behaviours if rents are mobile. As with all taxes, the more internationally mobile a tax base is, the larger the distortions created by tax will be.
[17] Cullen and Gordon (2007) provide empirical evidence that asymmetry in the taxation of profits and losses has important effects on the behaviour of entrepreneurs in the US.

capturing rents). Those with high earnings capacity might be better at generating a high return on their investment because, for example, they have access to social networks, information, or due to the economies of scale.[18]

In principle, we might want to set different tax rates on different types of excess return. In practice, this is not possible. Taxing excess returns at labour income tax rates is a good compromise; it is demanded by the third possibility set out above and entirely consistent with the first two.

Capital income taxes – including taxes on dividend, rental and business income and on capital gains – can tax most excess returns. In fact, the desire to tax excess returns is the best rationale for operating a capital income tax in the first place.

This may appear to create a tension with our argument above that normal returns should not be taxed: should rates of capital income taxes be low or high? However, it is possible to design capital income taxes in such a way that they apply only to excess returns and not to normal returns (or, more broadly that normal returns are taxed at a different rate). The IFS-led Mirrlees Review (Mirrlees et al., 2011) argued in favour of this approach and set out various ways it could be achieved. The broad way in which UK private pensions are taxed (with tax relief for money invested, no tax on returns within the fund and a tax on amounts withdrawn)[19] offers one model for how this can be achieved, but there are others. Taxing excess returns to durables, however, would require a valuation of the consumption benefits they yield each year (unless they are rented out, in which case the market value is observable).[20]

At present, for savings in pensions, ISAs (a form of savings account) and main homes – i.e. for the vast majority of UK savings – the normal return is not taxed; in the case of ISAs and housing, neither are excess returns. (Pension saving is in fact subsidised, through a 25% tax-free lump sum and the exemption of employer pension contributions from National Insurance contributions.) While owner-occupied housing is not subject to income tax or capital gains tax, rental housing is the most heavily taxed major asset class (even ignoring the separate council tax levied on occupiers). For business owners, normal returns are taxed but at preferential rates (including on excess returns): dividends and capital gains are taxed at significantly lower rates than labour income (Adam and Miller, 2020). Given the current set of taxes, one of the main challenges is to fix how we tax excess returns.

There are many problems with capital income taxes as they currently stand and an understandable scepticism that politicians will take steps to improve them. An annual wealth tax could be viewed as an alternative – but it would be a very poor alternative (Summers, 2020, draws the same conclusion). As shown in the example in the Introduction, a wealth tax taxes normal returns but not excess returns. Those excess returns that are spent would never be taxed under a wealth tax. Those that are saved would be added to the tax base and (the normal return to them) would be taxed for as long as they were saved. This will rarely be a good approximation for a tax on the flow of excess returns. In addition, taxing the normal return brings the downsides highlighted above (i.e. that taxing saving is inefficient and unfair).

[18] For evidence on the how the rate of return on capital rises with portfolio size and discussion of heterogeneity in rates of return, see Fagereng et al. (2020) and the references therein.
[19] This is a simplified description of the UK's tax regime for pensions: in fact it has a number of undesirable features that depart from this.
[20] Adam (2013) describes what the taxation of excess returns to housing investment would involve. The same approach could be applied to other durables, though the Mirrlees Review judged that beyond housing the benefits would not be worth the cost and difficulty of doing an annual valuation.

4.3 Taxing gifts and inheritances

A growing share of wealth now comes from inheritances and is intended for bequests. Inherited wealth in the UK is set to grow in coming decades and to be more important relative to lifetime employment income – and therefore a more important determinant of lifetime resources – for future generations (Bourquin et al., 2020).

The debate on whether gifts and inheritances (or bequests) ought to be taxed – or indeed subsidised – is complex, subtle and unresolved. Both expert and public opinion are sharply divided, with many feeling strongly one way or the other. Often people's instinctive reactions depend on whether they look at the transfer from the perspective of the donor (who may already have been taxed on the money – why should they be taxed again, penalised for providing for their children rather than spending the money on themselves?) or from the perspective of the income of the recipient generation (why should income they inherit be taxed less than income they have worked for, and why not reduce the inequalities that arise from accident of birth?). In formal economic models, policy conclusions turn out to be highly sensitive to the precise nature of donors' motivations (and recipients' preferences), where empirical evidence remains inconclusive even about the broad motives, let alone the fine distinctions on which policy conclusions hinge.[21] And this is also an area where policy conclusions depend heavily on which normative criteria for policymaking (see Section 3) are adopted.[22] We do not review the arguments here, but merely note that the academic literature does not yield a clear conclusion and we do not take a view.

But if, for whatever reason, we want to tax gifts and inheritances, it would be better in principle to tax them directly, via a (reformed) inheritance tax.[23] An annual wealth tax would tax inheritances received; but (a) it would tax inherited wealth more, the longer it was held before and after being passed on and (b) it would also tax wealth accumulated in other ways, e.g. saved from earnings. Unless we considered those effects desirable for one of the reasons discussed in the next subsection, those are strong reasons to prefer a tax specifically on inheritances (and gifts) than a tax on all wealth.

Inheritance tax in the UK (as in many other countries) is deeply flawed. It is relatively open to being sidestepped by the wealthiest, either via exempt assets (such as business and agricultural property) or simply by passing on wealth above the threshold well before death.[24]

It is not clear to us why it should be harder to fix inheritance tax than to introduce a wealth tax, but we leave that discussion to other papers in this series, including Summers (2020). Our argument here is simply that if the aim is to tax inheritance rather than saving and other sources of wealth, it would be worth making a substantial effort to improve inheritance tax before considering a wealth tax (which would no doubt have imperfections of its own).

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[21] Gale and Slemrod (2001) and Kopczuk (2009) review the literature.

[22] For extensive discussion – and often heated debate – in the economics literature on the relationship between individuals' motivations, government objectives and theoretically optimal policy, see e.g. Hammond (1988), Kaplow (1995 and 1998), Cremer and Pestieau (2006), Boadway, Chamberlain, and Emmerson (2010), Farhi and Werning (2010 and 2013) and Piketty and Saez (2013). Mirrlees et al. (2011, Chapter 15) provide a short non-technical overview. Beyond the economics literature, the debate ranges even more widely.

[23] Rather than having a dedicated tax, an alternative would be to treat gifts and inheritances as ordinary taxable income in the hands of the recipient and expenditure in the hands of the donor.

[24] Wealth transferred between three and seven years before death attracts a reduced rate of tax, and wealth transferred more than seven year before death is not taxed at all.

4.4 How other behavioural responses matter

We have focused so far on responses of work, saving, spending and bequests to taxation. In practice, people can respond in other ways: diverting money or activity to less heavily taxed forms or to other jurisdictions, and tax avoidance and evasion. All of these behavioural responses matter and – depending on how they interact – can form a second-best argument for an annual wealth tax.

The economic efficiency cost of a tax rise can be measured by the total exchequer effect of all behavioural responses to the reform.[25] One obvious implication of this is that the size of all behavioural responses matters. The bigger the overall behavioural response, the less revenue a given tax rate will raise – or the higher tax rates must be (imposing bigger losses on taxpayers) to generate a given amount of revenue. A less obvious, but equally important, implication is that it matters how the response to one tax affects other tax bases. If I reduce, shift or hide my activity/money in response to a wealth tax, do I do so in a way that merely means the government forgoes some wealth tax revenue, or does it also mean the government loses a hefty chunk of income tax, CGT, VAT and/or inheritance tax that would otherwise have been paid?

In the simple theory we have discussed so far, with idealised taxes that apply to *all* earnings, saving, wealth and consumption and bequests, a tax that affects one of these bases will also affect the others. If people earn less, for example, they must also spend (or bequeath) less. If a wealth tax leads me to earn and save less, and so ultimately spend and give/bequeath less (albeit sooner), that will reduce revenue from all those other taxes. And we have suggested that, based on the arguments considered so far, if all those other taxes were set appropriately there would be no role for a wealth tax.

Sadly, real taxes do not work that neatly. With taxes on imperfect bases that allow shifting to more lightly taxed forms, and other responses such as evasion and international mobility, it is less clear that all tax bases will move together; they may or may not do so. To the extent that the responses to different taxes (on income, expenditure, bequests and wealth) do not affect each other's bases (in the way they would in the simple theory with idealised taxes), there is a benefit to diversifying the sources of revenue so that no single tax gets too high, because the efficiency loss from (or deadweight cost of) a tax is more than proportional to the tax rate. The benefits of diversification must be traded off against the extra administrative and compliance burdens and the complexity of needing to measure and tax more things. But this provides a prima facie case for an annual wealth tax: two imperfect taxes can be better than one bigger imperfect tax.

How far responses to one tax do affect revenue from other taxes is an empirical question. And it is not a fixed feature of the world, but depends on the details of the design and administration of the taxes: the details of tax base, what must be located in the UK, and enforceability. (These issues are discussed in Chamberlain (2020) and Troup et al. (2020) in this series).

Note that the better each tax is designed, the less of a mismatch there will be between the tax bases. The more we can reform existing taxes to treat capital gains, dividends, bequests, etc. appropriately, the less rationale there would be for an annual wealth tax as well.

[25] While focusing on the effect on government revenue in this way might appear to be a very narrow perspective, in fact it turns out to fully capture the aggregate loss of well-being to the whole population in excess of the tax actually paid, albeit not distributionally weighted. Hendren (2016) gives a nice discussion of this approach.

4.5 Principled rationales for a recurrent wealth tax

An annual wealth tax is equivalent to a tax on the normal return to wealth (set at a rate to raise the same revenue). We argued above (in our baseline case) against taxing the normal return to savings on the grounds that such a tax created efficiency costs (including discouraging work) without helping the government to redistribute. But under different assumptions, that is not necessarily true. Here we consider arguments in favour of a wealth tax in cases where it is desirable to tax savers.

We also set out two other arguments for taxing wealth that focus on changing the assumptions about why wealth matters to people. One argument (Section 4.5.2) is that wealth contributes directly to the holder's well-being, over and above the consumption it can finance, and therefore that the wealthy have a greater ability to pay than those who spend their money as soon as they receive it. The other (Section 4.5.3) is that the advantages of wealth come partly at the expense of others, and people will therefore tend to hold more wealth than is good for society as a whole.

4.5.1 A wealth tax in order to tax savers

There is a very large body of work in economics on how the normal return to capital should be taxed.[26] There is not a settled conclusion. Some argue in favour of taxing the normal return. That is, they would argue that, even if we can tax income flows (and existing wealth) directly, there would still be reasons to tax wealth because it bears more heavily on savers.

If the observed level of saving contains information about earnings capacity over and above that contained in labour income, then taxing savings might be a useful way of redistributing. For example, there is evidence that those with higher cognitive ability (especially numeracy) tend to save more (for a given income level), in part because they have more patience and self-control.[27] This works in favour of a positive tax on the normal return to savings, as a way to tax those who are *able* to earn more without having to tax actual earnings (and therefore discourage work) as much. At the margin, by taxing saving the government could raise revenue and redistribute from those with higher earning capacity while reducing tax rates on labour supply and effort.

There are many other – often very subtle – arguments in favour of a tax on the normal return on the basis that it may help to ease the trade-off between redistribution and work incentives.[28] However, there are also arguments that can be made in support of subsidising normal rates of return to saving, including, for example, if people save less than is in their best interests. And under some lines of argument it is not clear whether a tax or a subsidy is called for. For example, if spending your money earlier in life makes you more likely to work than spending it later in life, then taxing savings (or wealth) – i.e. encouraging you to spend your money sooner – means you're likely to work more, which mitigates the general disincentive to work that taxation creates; but if the reverse is true, and spending your money later makes you likely to work *less*, that would be an argument for subsidising saving. We do not have enough evidence to tell us which is true, let alone to what extent.

One paper suggests that the normal return to wealth should not merely be taxed, but taxed more heavily than excess returns. Guvenen et al. (2019) argue that this would lead to a more efficient resource allocation. The basis of this conclusion is a model that effectively assumes that

[26] Bastani and Waldenstrom (2020) provide a recent review. Scheuer and Slemrod (2020) discuss explicitly in the context of a wealth tax.
[27] For discussion of the evidence and related arguments see Banks and Diamond (2010).
[28] See Banks and Diamond (2010) for a detailed analysis; Mirrlees et al. (2011, Chapter 13) for a brief summary with an eye to policy applicability; and Bastani and Waldenstrom (2020) for a recent review.

all excess returns are created by productive ('entrepreneurial') activities (not by luck or income shifting) and that there are credit market imperfections which prevent entrepreneurs from borrowing to invest. In this case, a wealth tax is preferred to income taxes because it shifts the burden of tax away from high entrepreneurial returns (towards those who use capital less productively or are merely saving to smooth consumption across their lifetime) and in so doing leaves the productive entrepreneurs with more capital to reinvest. The paper acknowledges the redistributive cost of taxing normal returns more than excess returns (i.e. it skews the burden away from those with high incomes), but in this specific model the equity costs are outweighed by the efficiency benefits. In practice, our view is that the model's assumptions are sufficiently far from reality that the results do not provide a useful guide to policy, and we doubt that such a tax policy – redistributing from those who save or inherit the most to those who declare the most capital income – is really the best way to alleviate any credit constraints that highly productive entrepreneurs might face.[29]

4.5.2 A wealth tax when wealth has benefits beyond purchasing power

If the possession of wealth has benefits to the wealth-holder over and above the consumption that it (or the income derived from it) finances, it has been argued, that means that wealthier people are better off, and can fairly be expected to pay more tax, than others with the same lifetime income and expenditure.

It is no doubt true that wealth brings benefits long before it is spent. Part of the value of having money is that I have flexibility in how I use it. It provides security in case I have an unexpected need or want. It may confer prestige. And the flexibility in how I might use the money might give me some influence over others who want me to buy their products or give them money. If I consume my wealth rather than holding onto it, I do not have those advantages. (Note that, as mentioned in Section 2, the purchase of durable goods involves converting money into a different form of wealth; the consumption happens gradually, not immediately at the point of purchase.)

But that is not enough to establish that wealth indicates ability to pay beyond lifetime income and consumption: it does not imply that someone who holds onto their wealth (and gets the benefits associated with having wealth) is better off than someone who received the same amount but consumes it instead (and gets the benefits associated with consumption). Am I really better off if I hold wealth of £1 million than if I buy something for my £1 million? And if so, why am I buying it? For example, imagine three people have wealth of £1 million; one holds the wealth in financial assets, one buys a yacht (which provides in-kind benefits and will mean that this person has lower wealth than the first person in years to come) and one spends £1 million on a luxury holiday; is the second person worse off than the first and the third person worse off

[29] First, the assumption that high taxable capital returns predominantly reflect productive use of capital is questionable. As we discussed above, excess returns can come from a variety of sources. Even among entrepreneurs, those earning high returns might indeed be those best able to use capital productively, but they might also be those who manage to capture a bigger share of a given return, those who take more risks, or those whose reported capital income reflects application of effort and skill in ways other than using capital more productively. And second, the conclusion is driven by using low tax rates on excess returns as a way to overcome credit constraints that productive entrepreneurs face. In a standard model without credit constraints, those who can make high returns on capital should get external finance (borrow or issue equity from a company) to pursue their highly profitable project, so capital will still be put to its most productive use. While clearly some credit constraints do exist in reality, it is questionable how far those who have already made some high returns on investment and are systematically able to make more are constrained from doing so by lack of finance. And it is even more questionable whether the best way for the government to alleviate credit constraints is through preferential tax rates on high returns to capital.

than both? All the flexibility, security etc. that comes with wealth may simply be part of what we mean by the value of £1. Someone who holds onto their wealth is not necessarily any better off than someone who spends it: they just haven't yet found something that they would prefer to having the money.

This is not to rule out the idea that wealth confers advantages beyond the consumption it finances, or that that might help to justify a wealth tax. The idea has a long history of scholarly debate and we have barely scratched the surface here. Our aim here is merely to highlight that the conceptual issues involved are complex, and the case for a wealth tax on these grounds is not as obvious as it might seem. We don't take a position.

4.5.3 A wealth tax when wealth has negative externalities

A subtly different argument is that some of the advantages that wealth confers to the holder come at the expense of others. For example, if wealth confers status, and status is a zero-sum game – it is *relative* position that matters – then any increase in my status from additional wealth reduces everyone else's status. If people care about their status then they will therefore tend to over-accumulate wealth. Some people feel bad when others have large amounts of wealth, and would feel better even if we taxed some of it away. Another way in which wealth accumulation can be harmful is if those with wealth are able to buy influence with politicians, which in turn is bad for democracy and wider society. This is often raised in the context of the US, where donations to political parties are much more important.

If wealth is indeed harmful to others in one of these (or other) ways, there is potentially a role for taxing wealth to reduce such harms. But the argument needs treating with care.

First of all, to justify taxing wealth rather than income or consumption, the harm would have to derive from inequality of wealth per se, rather than income or consumption. Indeed, it would have to be contingent on *not* spending the wealth. It is questionable whether that is the case. Classic accounts of people seeking relative status, such as Veblen's (1899) 'conspicuous consumption' and Hirsch's (1977) 'positional goods', have focused on the status gained by spending money, not by holding onto it. If status derives from relative income or consumption rather than wealth, the policy conclusion is correspondingly different. Where people have argued (e.g. Layard, 2005; Frank 1985; Boskin and Sheshinksi, 1978) that policy should be used to offset the negative externality from status-seeking, the natural policy implication is that the positional externality simply adds to the motivation for redistribution, pushing towards higher and more progressive tax rates, not towards taxing wealth rather than income/consumption.

Similarly, if the reason wealth gives me undue influence is because I can spend it on political donations, a more logical response would be to tax me if I spend it on political donations, not to tax me if I don't spend it. A simple wealth tax would have the perverse effect of encouraging me to increase my political donations, since that would reduce my tax liability. There may also be better targeted non-tax tools, such as caps on political donations.

More broadly, in responding to any harmful activity appropriately, we must:

(1) Identify the exact source of the externality.
(2) Identify the most appropriate tool to target the externality: tax isn't the only option.
(3) Even if we might still want to use tax, ensure we can design a policy whose benefits exceed its costs (which in turn requires estimates of the size of costs and benefits).

In addition to questioning whether wealth (as opposed to spending from wealth) is actually the source of any negative externalities, there can also be more fundamental objections to the idea of taxing these types of externality. Some have argued that any unhappiness people feel at others' wealth reflects envy, and that even if genuine, such unworthy motives are not something that government policy should aim to satisfy. But whether 'envy' is really a fair characterisation, and how far governments should pick and choose which contributors to their population's welfare to pursue, are highly debatable.

4.5.4 Summary of principled arguments for a wealth tax

We have set out three types of principled arguments for an annual wealth tax. While they are well founded in economic theory, they do not point to a clear and specific policy prescription. On balance, they probably point towards taxing rather than subsidising wealth (although even that is not completely clear); but we have little basis for determining the appropriate tax rate that the arguments laid out in this section would collectively imply. Mirrlees et al. (2011, Chapter 13) discuss the difficulties of taking these arguments to policy, and conclude that 'we are still some way from a robust and accurate quantitative understanding of all the relevant aspects of behaviour, and we should be mindful that a rough approximation would only yield part of the efficiency improvements that the theoretical arguments suggest might be attainable'.

An inevitably imperfect wealth tax would not merely forgo some of the potential benefits of an idealised one; it would create additional costs. For example, unless it applied equally to all forms of wealth, it would distort people's choice of assets. But it is hard to imagine a wealth tax being truly neutral across assets: that would mean applying it to human capital, as well as more obvious hard-to value (or politically sensitive) assets. Any argument for a wealth tax that builds from one of these principled cases must also consider how such a tax would be designed in practice and what this implies for the full range of behavioural responses that would result; these issues will inform whether the benefits of the tax would likely outweigh the costs.

Some of the arguments in this section would apply across the whole population; others (such as around political power) might be most relevant when considering a tax aimed at those with the very highest wealth. It might also be that those with the highest wealth are less motivated by life-cycle saving and that their work and saving would not respond strongly to a wealth tax. This is a quantitative question and does not affect the qualitative arguments made so far, but would imply that some of the concerns raised around the distortionary effects of an annual wealth tax might be lower for a wealth tax with a high threshold.[30] However, as noted in Section 4.4, there is a range of behavioural responses that matter and would be relevant for the full assessment of a wealth tax. Even if the very wealthy would be less responsive to a wealth tax in terms of work and savings decisions, they could be highly responsive overall if they respond more in some of these other ways, such as moving wealth across countries. Advani and Tarrant (2020) discuss behavioural responses.

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[30] Note, however, that part of the effect of a wealth tax would come through discouraging *other* people from becoming rich in future: the question is less whether a currently wealthy person would change their behaviour now, but whether they would have behaved differently in the past if a wealth tax was in place. The stakes here are big, so we need to be mindful of even relatively modest effects. Empirical estimates tend to consider immediate responses by people directly affected by a tax and rarely pick up long-run effects like these.

5. Taxing existing wealth

An unexpected one-off tax on the existing stock of wealth is an economically efficient way to raise revenue: it would not distort behaviour, since there would be nothing people could do to reduce their tax liabilities. Such a tax would be efficient even if it were only levied on some forms of wealth or on some types of people, and the tax payments could be collected over a number of years, for example to give people more time to access the liquid funds needed to pay the tax. But whether the efficiency properties could be achieved depends crucially on whether the tax could be made credibly one-off. This would be easier to do if implementing a one-off tax were linked to a specific one-off justification, such as the need to pay for the COVID-19 crisis. But making that commitment credible would be one of the major challenges to the efficiency of a tax on current wealth.

Usually the efficiency costs of taxation place limits on how much revenue can be raised from it. In the case of a one-off tax on existing wealth, very large sums could be raised in ways that would be highly redistributive: in principle, we could tax existing wealth at up to 100% if economic efficiency were the only consideration. But efficiency is not the only consideration. Whether we would want a one-off wealth tax and how such a tax should be designed (for example which assets and people it should apply to) depends critically on what is deemed fair.

If we want to achieve the efficiency properties associated with taxing existing wealth but a one-off wealth tax isn't possible, there are alternatives. We argue that there are better ways to do this than using an annual wealth tax.

5.1 When is a one-off wealth tax an efficient revenue raiser?

A tax on existing wealth is an economically efficient way to raise revenue if it is announced in such a way that there is nothing people can do to reduce their tax liabilities and if it does not change future incentives. Such a tax will not distort people's behaviour.[31]

Achieving this means that the date for which wealth is assessed must be no later than the date at which the policy is announced (or, strictly, the date at which the policy comes to be expected), so that people cannot run down their wealth (or do anything else) to reduce their tax liability.

The efficiency of a tax on existing wealth also depends critically on the credibility of the claim that the wealth assessment is one-off. This is required to ensure that the tax does not lead people to expect further taxes in future on wealth they have not yet accumulated. This does not mean that the tax has to be levied or collected only once. The government could announce a tax on existing wealth to be collected in instalments over several years, or even subsequently

[31] People might change their behaviour in response to being made poorer (an 'income effect'), but that is not a distortion. Inefficiencies arise when taxes change relative prices, leading to unexploited gains from trade. In the case of a tax on saving (or an annual wealth tax), that means reducing the after-tax return I get from working and saving relative to what people will pay to employ me and use my capital, with the result that mutually beneficial employment and supply of capital do not happen, a loss to all concerned. A one-off tax does not affect relative prices in that way. Income effects, on the other hand, represent an efficient adjustment to the new allocation of resources across the economy: there are no unexploited opportunities and no waste. On a more practical level: unless tax revenue is wasted, income effects will tend to roughly balance out across the economy, as what is taken from one taxpayer is given (in cash or services) to another, now or in the future; so a negative income effect for one taxpayer is offset by a positive income effect elsewhere. That is not true of the distortionary effects of taxation.

announce further levies on the originally assessed wealth.[32] Of course, a tax levied in ten years' time based on people's wealth a decade earlier might be even less likely to be considered fair (and therefore be a less credible announcement) than a one-off tax at the point of assessment. But as long as people know that any tax will be levied on the wealth they accumulated in the past, regardless of how their circumstances change in future, they cannot change their behaviour to reduce their tax payments. And a surprise future announcement of another tax based on a new wealth assessment would also be efficient, provided it did not create expectations of a third assessment in future.

A one-off tax would be also efficient even if it applied only to some assets, or only above a certain threshold, or even only to some population groups[33] – although again, these choices would likely affect assessments of whether it was fair.

What matters for efficiency is not the tax(es) actually levied, but people's expectation of future taxes. If people expect taxes to be levied on wealth that they hold in future, that gives them an incentive to spend their existing wealth and a disincentive to work and save in future.[34]

The worst of all worlds, therefore, would be to lead people to *think* their wealth might be taxed in future, but not actually levy that tax. That would create all the inefficiencies without raising any of the revenue.

The government cannot commit irrevocably to any tax being one-off; parliament cannot bind its successors. If there were nothing at all the government could do to affect people's expectations of future policy, this would seem a fatal conundrum. People might ask themselves: if a 'one-off' wealth tax looked like a good idea to the government this year, why will it not look like an equally good idea to them in some future year – or indeed in every year? If the government were perceived to be facing the same options every year, it might be expected to make the same choices every year; and as noted above, if people expect an annual (or at least recurring) wealth tax, we might as well have one: the expectation is the source of the efficiency loss.

In practice, things are not quite so hopeless. Policy commitments and effects on expectations are not all-or-nothing.

A government can try to make its commitment not to repeat the tax more credible by, for example, making a clear and explicit public pledge so that the reputational damage from reneging on the promise makes people think it unlikely. Such a pledge might do little to reassure people that a different future government might repeat the tax – but it is less clear how far people would expect a different government to mimic the policies of the current government in the first place.

Another way the government might make the tax seem more credibly one-off would be if there were a clear narrative explaining an exceptional one-off justification. The various countries that have used one-time wealth taxes in the past often used them to raise revenue in crises times such as during wars (see O'Donovan, 2020, for discussion of how other countries have implemented one-off wealth taxes). Other justifications might include correcting a specific past

[32] The fact that council tax is still being levied based on 1991 property values shows that it is perfectly possible to levy taxes based on long-outdated asset valuations, though, for a variety of reasons, it is not a good example of a sensible attempt to use one-off valuations in order to avoid distorting behaviour.
[33] Indeed, it need not be related to wealth at all: any tax that did not depend on future behaviour would be similarly non-distortionary.
[34] It is not only the expectation of future wealth taxes that is potentially a problem. If introducing a tax on existing wealth leads people to think that other, different, taxes might be introduced then it can have a dampening effect on a wider range of activities than just wealth accumulation.

injustice or mistake, funding the response to the COVID-19 crisis,[35] or responding to unprecedented levels of inequality. Whatever reason is given for why a tax specifically on current wealth is fair might also be a reason for it to be a one-off. But for each of those examples it is questionable how unique such a justification would really be: people might fear that in future there could be other past injustices identified, other severe public health (or other) crises, or a recurrence of inequality.

The effect on expectations might also depend on exactly how a tax on existing wealth was implemented: we return to this below.

5.2 Would a one-off wealth tax be fair?

The fact that a one-off wealth tax might (potentially) be economically efficient does not mean it would be fair. Here we run up against the philosophical limits of the standard economic approach. In a standard economic analysis, the government's presumed goal of maximising a weighted sum of individuals' well-being would be well served by confiscating all existing wealth.[36] The revenue could be redistributed more evenly and/or used to finance public services with less need for distortionary taxes on future economic activity. In this respect, the standard economic framework is more redistributive than most people would want to be: it incorporates little conception of rights, justice or fairness beyond maximising and equalising resources and well-being.

In reality, most people would not support a 100% tax on existing wealth, even if it meant greater equality of living standards and reduced the need for other, less efficient, taxes to raise revenue. People might think it unfair, illiberal, even beyond the legitimate scope of government to take away everything they had earned and saved in the past. Even with a less confiscatory tax rate they might argue that people had earned and saved on the understanding that, once appropriate taxes had been paid, the money was theirs to use as they pleased, and it is unfair to penalise them retrospectively for decisions made in the past. On the other hand, all taxes involve taking private property, and it is equally implausible to argue that it is never legitimate to tax people 'retrospectively' on their past behaviour (such as wealth accumulation to date). Retrospection is not binary: it comes in different types and degrees, and almost all tax changes involve some element of retrospection. For example, almost any capital tax will reduce the value of people's existing assets; and even a rise in taxes on salaries 'retrospectively' penalises people who undertook education or training in the past to increase their earning power.

Views differ sharply on what taxation of existing wealth would be fair, and it is a hotly debated topic among welfare economists, political philosophers and legal scholars, among others. There is no simple right answer; reasonable people might disagree, and views might depend on factors such as:

- how wealth was acquired: whether through hard work, privilege or luck; by fair means or foul;
- whether some sources of wealth are deemed to have been under-taxed when they arose;
- general views on the acceptability of different degrees/shades of retrospection;

[35] Landais, Saez and Zucman (2020) propose a time-limited, progressive wealth levy related to COVID-19.
[36] Again, assuming it created no expectation that future wealth would be taxed again, and therefore had no disincentive effects.

- general views on the legitimacy and inviolability of property rights.

This speaks to some of the commonly cited motivations for a wealth tax beyond simple revenue-raising and redistribution. For example:

- Some argued after the 2007–08 financial crisis that bankers should be taxed, either as 'punishment' for having caused the crisis or to recoup government bail-outs to the sector.

- Some large current wealth holdings may have been passed down many generations, perhaps escaping inheritance tax throughout, and where the original source of the money was never taxed.

- Many forms of capital income are not taxed at all or taxed at preferential rates relative to labour income. This will be reflected to some degree in current wealth stocks.

Note that such arguments could not justify a tax on future accumulation of wealth; at most they might justify a tax on existing wealth holdings. The underlying merits of the specific arguments are debatable, and we do not discuss them further here. But how effectively a tax today could correct for anything that happened in the past would depend on the link between current wealth holdings and the past problem. To the extent that such retrospection were considered legitimate, we might ideally try to identify those people who had benefited from (say) under-taxed income in the past and rectify the problem directly. Clearly that is unrealistic. But the weaker the link between today's wealth stocks and the prior problem, the less good the targeting. For example, if incomes that had been under-taxed in the past had also been spent, a tax on current wealth cannot offset that. Particular assets may have been undertaxed in the past, but bought and sold many times before they reached their current owners, who acquired them at market value. And it is almost inevitable that a tax today would partly fall on people who had built up their wealth entirely by saving out of taxed income.

There is also the simpler – but no more objectively answerable – question of whether the distributional burden of a tax on existing wealth is considered fair. It would, of course, be extremely progressive with respect to current wealth. But a tax on existing wealth falls entirely on those who are wealthy today. That means that it targets the current generation – especially those at the peak of their wealth holdings (typically around retirement age) – and their descendants, whereas a tax on future income or wealth accumulation would primarily affect younger, and future, cohorts. The appropriate balance of burdens across generations is a question on which opinions will differ, and is complicated by bequests and other intergenerational transfers. Some would argue that the generation currently around retirement age has been lucky, having benefited (as a group – not necessarily individually) from both benign economic developments (such as rapid rises in the value of their homes, generous occupational pension provision and decades of healthy wage growth) and generous government policies (such as free university tuition, big tax breaks for pension saving and capital gains on main homes, and the 'triple lock' on the state pension); and that it is therefore fair to ask that generation to contribute more. But that is at the very least debatable and requires strong value judgements.

The calculus of intergenerational fairness looks different, however, if a one-off tax on current wealth is accompanying an increased tax on sources of wealth in future, which would be paid primarily by future generations. For example, we argued earlier that excess returns to capital are currently taxed much more lightly than earnings. If future top-rate taxpayers would pay tax on their dividends and capital gains at rates above 40% (to align overall effective tax rates between capital and labour income[37]), whereas some existing wealth holders had paid only the 10% entrepreneurs' relief rate, then imposing a one-off tax on existing wealth would arguably be levelling the playing field between the generations rather than imposing a lop-sided tax on the elderly. That then comes back to the questions of whether we think existing wealth was under-taxed when it arose, and if so, whether it is legitimate to tax it 'retrospectively' now.

More straightforwardly, within a generation, those who are wealthiest at a given point in time are not necessarily those who are best off over their lifetimes, as we have discussed. Those who have already spent their money would escape lightly, whereas those saving it for the future would be hit hard.

Finally, assessments of the fairness of a particular tax proposal might depend on specific features of the proposal such as whether it applied only to certain assets and therefore penalised people whose wealth was held in one form rather than another.

5.3 Alternative ways to tax existing wealth

If an explicit one-off wealth tax is not deemed possible, there are other ways to tax existing wealth.

A less obvious way to tax existing wealth would be to introduce or increase an expenditure tax. This would tax existing wealth (once) whenever it came to be spent, along with any returns earned on it in the meantime (so the delay does not reduce the present value of the tax liability) and any other future receipts.[38] In practice, this would most realistically be achieved through an indirect tax (such as VAT, which we already have, or a retail sales tax) but in principle it could also be achieved through a personal cash-flow tax.[39] Note that while the tax might be remitted later, the loss of wealth could be felt by the holder immediately. This is easiest to see if the expenditure tax takes the form of a VAT which is passed on to consumers in higher prices: the price rise reduces the real value of wealth immediately, even if the wealth is only spent later.

The potential efficiency gain from switching from a (uniform) earnings tax to a (uniform) expenditure tax, caused by this implicit tax on existing wealth (and correspondingly reduced need for distortionary taxes to raise revenue), has been well established in the economics literature and estimated to be large.[40]

[37] Above the £150,000 additional-rate threshold, dividends and capital gains on shares would need to be taxed at 42.5% to align the overall marginal tax rate with that on earnings, taking into account that profits are subject to corporation tax as well as shareholder taxation while earnings are subject to employee and employer National Insurance contributions as well as income tax. For non-corporate assets, the top CGT rate would have to be 53.4% to achieve alignment. Of course, if the aim is to align tax rates, that could be done by reducing the tax rate on labour as well as (or instead of) increasing the tax rate on capital. See Adam and Miller (2020) for more detail and discussion.

[38] If the wealth holder bequeathed the wealth rather than spending it, the recipients would be taxed whenever they came to spend it.

[39] A personal cash flow tax would involve taxing cash withdrawn from bank accounts, ISAs, businesses etc. while giving tax relief for future contributions (as we do for pensions). This amounts to an expenditure tax, taxing earnings only if they are spent rather than saved, and taxing money withdrawn from savings to spend. To think of it another way: if the expenditure tax caused prices to increase, it would reduce the real value of all wealth (and debts) immediately. Proposals for this form of cash-flow expenditure tax have a long pedigree, including Kaldor (1955), Andrews (1974), Meade (1978), Bradford (1984) and Kay and King (1990), among others.

[40] Auerbach and Kotlikoff (1987) is the foundational text.

The fact that a (uniform) expenditure tax is generally more progressive than a (uniform) earnings tax, because it taxes existing wealth as well as future earnings, stands in stark contrast to the widespread misperception that VAT is regressive. The progressivity comes from the one-off tax on existing wealth. The misperception of regressivity arises from looking at VAT payments at a point in time as a fraction of income at the same point in time, rather than as a fraction of *expenditure* at that time or – better still – taking a lifetime (or intergenerational) perspective. VAT is less progressive overall than income tax in another way: it does not have the graduated rate structure (tax-free allowance and higher rates) that income tax does. The zero and reduced rates of VAT that apply to certain goods such as most food and domestic fuel are a much less well targeted way to redistribute. But VAT is still progressive, and a uniform increase in VAT would be more progressive than a uniform increase in income tax.[41]

An advantage of a one-off wealth tax over an expenditure tax is that it would tax *only* current wealth. An expenditure tax would apply to future receipts too, at the same rate. A one-off wealth tax would therefore allow us to tax existing wealth without increasing the tax on future earnings – though this could be mirrored by accompanying the introduction/increase of an expenditure tax with a reduction in tax rates on earnings.

A second, related, advantage of a wealth tax over a consumption tax is that it could more easily be targeted at the very wealthiest, or at certain specific assets (for example if particular assets are deemed to have been under-taxed in the past). The tax on existing wealth implicit in an expenditure tax would be paid bit by bit as the money was spent, as just one part of spending. This difference could not so easily be neutralised by combining the expenditure tax with an earnings tax reduction.

But an expenditure tax has the advantage over an explicit wealth tax that it does not require a general valuation: the wealth is taxed whenever it is converted to cash and spent, and those flows are more readily observable. The exception to this is owner-occupied housing and other durable goods, where the expenditure has already been incurred but some of the consumption benefits are still to come. If we want additional expenditure tax to apply to that future consumption as well – and so the implicit tax on existing wealth to apply to wealth held in durables – then a valuation would be needed. The extra tax could be applied to durables in one of two ways: either the consumption (rental) value of a durable could be assessed annually and subjected to the extra tax rate along with other (non-durables) consumption;[42] or the current capital value of durables could be assessed, and the extra tax levied once on that value at the point the reform is implemented (this can be thought of as pre-payment of tax on the expected future consumption stream, like tax at the point of purchase is a tax on the expected future consumption stream, or simply as an explicit one-off wealth tax on durables).

A shift towards an expenditure tax might also be more credibly one-off than an explicit one-off wealth tax. The introduction of a one-off wealth tax might lead people to believe that other one-off taxes are more likely in future, and is unlikely to lead anyone to expect a future one-off wealth subsidy. If VAT were increased, on the other hand, it is not clear whether that would lead people to expect rates to rise further or to fall back in the future.

[41] Adam et al. (2011) discuss the measurement of the progressivity of VAT and provides estimates for a number of European countries.

[42] Mirrlees et al. (2011, Chapter 16) argued that a reformed and regularly revalued council tax could act as an annual tax on consumption of housing services, instead of levying VAT on housing. An increase in the rate of VAT (or other expenditure tax) could then be mirrored for housing simply by increasing that tax rate.

An annual wealth tax would also tax existing wealth. But it would do so less efficiently than either a one-off wealth tax or an expenditure tax, for two reasons:

- First, people would pay less tax if they spent (or gave away) their wealth more quickly. This is arguably unfair as well as distortionary. It is hard to see why we should tax people over and over again if they keep their wealth, but only once if they spend it after a year.

- Second, it could not easily be restricted to existing wealth, so it would discourage working and accumulating wealth in future – with all the problems discussed in Section 4.[43]

Neither a one-off wealth tax nor an expenditure tax has these two features. If one espouses one of the arguments in Section 4 for why discouraging saving (and, presumably, encouraging dissaving) is positively desirable, then these features are not necessarily unwelcome. But if one would prefer to redistribute wealth without (as far as possible) discouraging saving, then an annual wealth tax looks economically inferior to these alternative ways to tax existing wealth. The only reason to introduce it would be if the superior alternatives were considered unacceptable or unfeasible for some reason.[44]

[43] Like a one-off wealth tax, but unlike an expenditure tax, it could also be readily targeted at the very wealthiest or at particular asset classes. But with an annual wealth tax, such targeting would have consequences for incentives, encouraging people to hold less wealth and to shift it to favoured asset classes.

[44] If better alternatives are unavailable, inheritance tax (especially if reformed) could also play some role in taxing existing wealth – though it would only tax the part of wealth that was passed on, and passed on in such a way as to fall within the scope of the inheritance tax.

6. Conclusion

There are various concerns that may motivate people to be attracted to the idea of a wealth tax. High in the public debate are concerns over the degree of wealth inequality (Rowlingson et al., 2020), some of which is alleged to have arisen from past injustices or policy ‘mistakes’: perhaps that incomes in the past should have been taxed more heavily or progressively in general, or that particular sources of wealth (such as business income, rising house prices or inheritances) were under-taxed. More recently, there has been growing interest in a wealth tax as a way to pay for the government response to the COVID-19 crisis in a way that falls most on those with broadest shoulders. However, none of these aims necessarily supports the conclusion that a wealth tax is an appropriate policy tool.

We have argued that a tax based on an unexpected and credibly one-off assessment of existing wealth is in principle an economically efficient way to raise revenues. If such a tax could be implemented, either directly or implicitly via a shift towards expenditure taxation, then it is the most efficient option we have for dealing with any concerns about the current wealth distribution. It would be an imperfect way to offset past mistakes – it cannot tax income that has already been spent, and would tax wealth that did not arise from past mistakes – but there are no good options that do that. Whether a tax on existing wealth is desirable, and which assets such a tax should apply to, depends crucially on notions of fairness. People will differ widely in their value judgements on, for example, whether it is fair to tax people unexpectedly on money they acquired and saved in the past and how to balance the tax burden between the generations. People with high wealth at a point in time aren’t all people with high lifetime resources, and vice versa.

It is more difficult to make a principled case for an annual wealth tax. Such a tax falls both on existing wealth and on wealth that will be accumulated in future. A capital income tax also falls on both current and future wealth – but an annual wealth tax does so in a way that penalises saving most heavily while failing to tax exceptionally high returns to capital (except to the extent, and for as long as, those returns are themselves saved). We highlighted that there are some good theoretical arguments in favour of taxing saving, but not a clear policy prescription for how high such a tax should be or whether it should be achieved via a wealth tax. Our own view is that, in practice, it is probably better not to tax the normal return to saving at all (i.e. only to tax earnings, excess returns to capital, perhaps inheritances and possibly existing wealth). We draw this conclusion not because a zero tax on the normal return is theoretically ‘optimal’ (the optimum is unknown but probably positive), but on the basis that the full theoretical benefits are unlikely to be realised, and that given the imperfections that would be inherent in an actual wealth tax, such a tax would create a range of additional problems. We doubt that the benefits would be sufficient to outweigh the costs. Others might draw a different conclusion.

For many policy aims – such as a desire to tax excess returns to capital – we have argued that there are policies that are economically superior to a wealth tax. We should not underestimate the radicalism of these alternatives: to take just one example, aligning tax rates on capital gains (above a normal return on investment) with tax rates on earnings would imply a top rate of over 40%, compared with the 10% currently enjoyed by most business owner-managers and zero where capital gains are unrealised at death. Reforming existing taxes could involve a very big tax rise for many of the best off – and no doubt prompt correspondingly fierce opposition. How much worse an annual wealth tax is than the economically superior alternatives we have identified – or how desirable it is *per se* if the alternatives are not available for some reason – depends on the trade-off between taxing existing and future wealth. The bigger and more unequally distributed the stock of existing wealth (relative to potential future wealth accumulation), the less bad an annual wealth tax looks from the point of view of economic efficiency; the greater the distortions to work, saving and other behaviours, and the more we believe a one-off wealth tax or reformed capital income taxes could be implemented without such distortions, the more ill-advised an annual wealth tax looks.

To the extent that taxes remain imperfect and that the responses to taxes on income, expenditure, bequests and wealth do not affect the revenue from each other's bases, there may be a benefit to adding a wealth tax in order to diversify the sources of revenue and prevent any one tax getting too high, though that must be weighed against the extra administrative burdens of having another tax.

Any specific wealth tax proposal would need to specify which assets would be subject to the tax, at what rate(s) and above what threshold. In this paper we have not constrained our discussion to cover only taxes on very high-wealth individuals. Some parts of Europe have (or had) exemption thresholds in the tens of thousands of pounds (Scheuer and Slemrod, 2020); in contrast, the recent Warren and Sanders proposals for the US had thresholds in the tens of millions (and with top rates of 6% and 8% – far higher than anything seen in Europe – applying above $1 billion and $10 billion respectively).

Taxing millionaires and taxing billionaires are very different propositions, and both are very different from taxing ordinary people's houses and pensions. Not only the taxpayers themselves but the assets involved, revenue at stake and likely behavioural responses are very different.

As a result, the relative importance of the different considerations we have explored in this paper will be different. For example, the very richest may be less likely to change the amount they work or save in response to an annual wealth tax (though we must also be careful not to deter the next generation from working and investing to generate wealth); issues of international mobility and tax avoidance are likely to be more important for this group.

But qualitatively, the arguments are the same for the richest as for the wider population. A one-off tax – insofar as it is credibly one-off – would be an efficient way to deal with concerns about existing levels of wealth without distorting behaviour and without discouraging the next generation of potential wealth creators. And for future additions to wealth, a wealth tax fails to levy any additional tax on economic rents or other excess returns to capital, simply taxing the stock of wealth irrespective of the return received; so to the extent that any concerns related to those with high wealth are about, for example, the exploitation of market power or bargaining power, a wealth tax will not deal well with them. The core question remains: why tax wealth every year it is kept, rather than taxing all sources of wealth once (as progressively as deemed appropriate) when they are received and/or when they are used?

Taxing all sources (or uses) of wealth properly would require radical reform of existing taxes, and would be far from easy. But the difficulties of introducing and operating a wealth tax might be even more formidable, as discussed in other papers in this series. Whether for the moderately well-off or the super-rich, there would be practical and political difficulties with applying a wealth tax to all forms of wealth. A tax that applied only to some assets, was based on shaky valuations or was easily circumvented would create inequities, distortions and complexity, and struggle to achieve revenue and distributional objectives or political acceptance.

As we have discussed in this paper, in principle there are some arguments for levying a wealth tax in addition to fixing existing taxes. But they are not the simple redistributive arguments commonly made; many of the common motivations for a wealth tax would be better served by improving existing taxes. In practice, the key questions may be how (un)satisfactory a real-world wealth tax would be, and whether it would be practically and politically easier to introduce a satisfactory wealth tax than to reform existing taxes.

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