Is it time for a wealth tax to offset the economic damage from COVID-19?

With the rollout of the first COVID vaccines, it's finally beginning to feel like Christmas. Although the health crisis is not yet over, the end is in sight.

But as the Office for Budget Responsibility's recent report highlights, the economic damage is likely to be more lasting. Even when the economy returns to its pre-crisis levels of unemployment and GDP, tax revenues are likely to fall short of spending by £20-30 billion, and debt as a share of GDP will be higher than at any time since the 1960s.

The government has already signalled a preference not to return to the austerity of the past decade; even pre-COVID there were plans to increase spending to "level up" less well-off regions of the country. This suggests that tax rises will be coming at some point. But where should they fall?

The conventional wisdom is that there are only three taxes that are worth anything, when it comes to raising serious cash: income tax, national insurance contributions, and VAT. But analysis released this morning by the Wealth Tax Commission shows the scale of revenues that could be raised by a one-off tax on assets.

Our work shows that a one-off wealth tax paid as one percent a year on wealth after mortgages and other debt above £500,000 per individual – or £1 million per couple split equally – for five years would raise £260 billion. That's equivalent to increasing the basic rate of income tax from 20p to 29p for the same period. Setting a threshold of £2 million, so it covers only individuals in the top one percent, it would still raise £80 billion.

Obviously this isn't free money. It comes from people, and those people would be worse off. But the point of comparison for any tax rise should be the alternatives. An equivalent rise in income tax rates would discourage work, while still taking the same amount from people's pockets. A rise in VAT would put more of the cost of the crisis on to the less well-off.

The advantage of a one-off wealth tax is that it would be closely linked to people's ability to pay, and doesn't discourage work. It would be popular: in a survey of public attitudes that we commissioned, it was the most preferred option for any tax rise, twice as popular as second place council tax. It is also very hard to avoid. Our proposed design means that even emigration or moving money offshore can't be used to reduce tax bills.

The work of the Commission shows that it is possible to raise money by taxing wealth. But we leave some questions in the hands of politicians. At what level of wealth should the tax start? Should the rates be flat or progressive? How much revenue should the government seek to raise in total?

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Administrative costs set some boundaries on these questions, but there remains a big political choice in who pays how much. That is why, alongside the final report, we have launched a tax simulator, to allow the public to design their own wealth tax. Now is probably not yet the time for tax rises. But before that time comes, it is important we all know what the choices are.

The Final Report of the Wealth Tax Commission will be launched virtually at 4pm GMT on 9 December 2020. You can sign up here.

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Notes:

- *This blog post is co-published jointly with the LSE Covid-19 blog.*
- *The post expresses the views of its author(s), not the position of LSE Business Review or the London School of Economics.*
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