MC2024/05597

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Iain Stewart MP
House of Commons
London
SW1A 0AA

5 April 2024

Dear Iain,

Thank you for your email of 15 March to HM Treasury enclosing correspondence from a number of your constituents about the use of wealth taxes to better fund public services. I am replying as the Minister responsible for the UK tax system.

I would like to address each of Tax Justice UK's suggestions in turn. First, they suggest a wealth tax. The UK system is designed to ensure among other things that the richest in our society pay their fair share on their wealth and assets, with the tax system taxing wealth across many different economic activities, including acquisition, holding, transfer and disposal of assets and income derived from assets. These tax levers generate substantial revenue and are forecasted to raise Inheritance Tax revenues of £7.6 billion, Capital Gains Tax (CGT) revenues of £14.8 billion and Stamp Duty Land Tax revenues of £12.7 billion in 2023-24.

In addition to collecting substantial revenue from existing taxes on wealth and assets, the UK also has a progressive income tax system. The top 5 per cent of taxpayers are projected to pay nearly half of all income tax in 2023-24 and the top 1 per cent are projected to pay over 28 per cent of all income tax in 2023-24. This has increased since 2010-11, when the top 1 per cent of income taxpayers paid 25 per cent of all income tax, and the top 5 per cent paid 43 per cent of all income tax.

Although the UK does not have a standalone wealth tax, there are several long-standing taxes on assets and wealth. Recent changes include reforms of dividend taxation so those with large shareholdings pay more. There has also been a reduction in the lifetime limit on capital gains eligible for Business Assets Disposal Relief to £1million. This means that those who sell large business assets will pay more CGT and it will help to make the tax system fairer and more sustainable while ensuring that enterprising small business owners continue to benefit.

The 2020 Wealth Tax Commission's report, an independent report published by a non-governmental organisation, provides information on the design and administration of a new wealth tax. However, it is clear from the report that introducing a new wealth tax in the UK would be hugely complex.

It is worth noting when CGT was charged to the same rates as income tax, an indexation allowance gave relief for the effects of inflation. In 1998, the Government replaced indexation allowance with a relief which tapered chargeable gains by reference to the length of time assets were held. These inflationary reliefs were complicated to administer and placed a high compliance burden on the taxpayer. As such, to simplify the tax system, the Government abolished indexation and taper relief in 2008, alongside introducing a lower 18 per cent single-rate of CGT. Today the higher rate of CGT is now 20 per cent (24 per cent for residential property), compared to 40 per cent (45 per cent for additional rate) for income tax.

On Tax Justice's suggestion about National Insurance contributions (NICs), NICs are part of the UK's social security system. The system, based around the longstanding contributory principle, is centred around paid employment and self-employment, with employers, employees and the self-employed paying towards the protection of those who have been in the labour market. Payment of NICs builds an individual's entitlement to claim contributory benefits which then replace earnings in certain circumstances, for example if someone is unable to work or is retired. Other income, including property and investment income, is generally excluded from liability to NICs as it is not derived from paid employment. Individuals pay income tax on property and investment income and can also pay voluntary NICs to build a State Pension record and access certain contributory benefits.

Tax Justice UK suggest abolishing or reforming agricultural property relief and business property relief for Inheritance Tax. These reliefs are intended to ensure farms and businesses do not need to be broken up to pay Inheritance Tax on the death of the owner or major shareholder and many countries with Inheritance Tax equivalents provide similar reliefs. Tax Justice UK suggest that abolishing the reliefs could raise £1.4 billion a year based on the published cost of the reliefs, but this is likely to overestimate the impact of such a change because it assumes no behavioural change or the potential application of other reliefs on these assets instead, such as the exemption for transfers between spouses or civil partners.

Tax Justice UK also suggest abolishing the regime for non-UK domiciled taxpayers. The Government wants the UK to have a fair and internationally competitive tax system, focused on attracting talented individuals and investment that contribute to the growth of the economy. The Government has also consistently maintained that those with the broadest shoulders should contribute a bit more. The Government is therefore ending the current rules for non-UK domiciled individuals, or non-domiciles, and introducing a fairer and internationally competitive residence-based regime from April 2025. This removes the outdated concept of domicile in the tax system and will make it easier for new arrivals to bring their foreign income and gains into the UK. This reform raises £2.7 billion per year by 2028-29, which is in addition to the current £8.5 billion which non-domiciles pay in UK tax each year.

Further information on these changes can be found online at:
https://www.gov.uk/government/publications/spring-budget-2024-non-uk-domiciled-individuals-policy-summary/spring-budget-2024-non-uk-domiciled-individuals-policy-summary.

Finally, Tax Justice UK suggest introducing 4 per cent tax on share buybacks. Share buybacks are already subject to taxation in the form of Stamp Taxes on Shares. The Government also has a number of carefully designed rules in place to that ensure that any returns that arise to shareholders as part of a buyback are treated consistently with the policies and principles that underpin the broader tax system.

The Government keeps all taxes and reliefs under review. Please pass on my thanks to your constituents for making me aware of their concerns.

Yours ever,

Nigel Huddleston MP
FINANCIAL SECRETARY TO THE TREASURY