SUPPORTING THE STATUS QUO

HOW THE TAXATION OF WEALTH IN THE UK GROWS REGIONAL DIVIDES

Henry Parkes and
Marcus Johns

August 2024

ABOUT IPPR NORTH

IPPR North is the leading think tank based in the north of England.

We develop bold, progressive ideas to empower England's regions so that everyone has the opportunity to live a good life and to thrive. We are deeply connected to the issues our communities face.

ABOUT IPPR

IPPR, the Institute for Public Policy Research, is an independent charity working towards a fairer, greener, and more prosperous society. We are researchers, communicators, and policy experts creating tangible progressive change, and turning bold ideas into common sense realities. Working across the UK, IPPR, IPPR North, and IPPR Scotland are deeply connected to the people of our nations and regions, and the issues our communities face.

We have helped shape national conversations and progressive policy change for more than 30 years. From making the early case for the minimum wage and tackling regional inequality, to proposing a windfall tax on energy companies, IPPR's research and policy work has put forward practical solutions for the crises facing society.

IPPR
4th floor,
8 Storey's Gate
London
SW1P 3AY

E: info@ippr.org
www.ippr.org
Registered charity no: 800065 (England and Wales),
SC046557 (Scotland)
This paper was first published in August 2024.

The progressive policy think tank

CONTENTS

ABOUT THE AUTHORS

Henry Parkes is principal economist and head of quantitative research at IPPR.

Marcus Johns is a senior research fellow at IPPR North.

ACKNOWLEDGEMENTS

The authors would like to thank colleagues George Dibb and Zoë Billingham for their time in developing this work and Ashwin Kumar for his feedback on the report. We would also like to thank Christine Berry, Nick Shaxson and Arun Advani for their time and consideration helping us to think through our analysis.

This research was supported by Founders Pledge.

Download
This document is available to download as a free PDF and in other formats at:
https://www.ippr.org/articles/supporting-the-status-quo

Citation
If you are using this document in your own writing, our preferred citation is:
Parkes H and Johns M (2024) *Supporting the status quo: How the taxation of wealth in the UK grows regional divides*, IPPR. https://www.ippr.org/articles/supporting-the-status-quo

SUMMARY

The new government's primary mission is to deliver economic growth, rooted in an ambition for prosperity and opportunity to be accessible across the UK. This government is starting from a position where **the tax system is actively constraining ambition to regionally rebalance the UK.** The last government took small steps to reform, including changes to taxation of landlords. For the new Labour administration to achieve its ambition of a renewed, resurgent and rebalanced economy, fair tax reform must be on the table.

Working people's incomes are taxed more heavily than incomes from wealth. This preferential treatment of wealth holders over workers overwhelmingly benefits already richer areas, particularly in the South, above everywhere else. The new government's manifesto commits it to addressing unfairness in the tax system, and there are strong benefits of doing so.

The **fair taxation of wealth can help regionally rebalance our economy, correcting widening inequalities in wealth, and consequently in health, power, opportunity and living standards.** Under the status quo, **our tax system drives regional wealth inequality up.** How we design our tax system should be part of the rebalancing toolkit. If the tax system is currently accelerating regional inequalities, at the very least **we can take our foot off the accelerator** - or even try the brakes.

We find that growing wealth inequality is not sustainable. It puts economic stability and long-term growth at risk, creating an economy that is less and less fair as time goes on. **Growing regional wealth inequality impacts living standards, constrains access to opportunity, and undermines the social contract.** Not only is this unfair, regional wealth inequality undermines UK growth and prosperity, because it locks many out of entrepreneurship, it diverts investment away from creating or expanding productive activity, it drives up housing costs and reduces wider economy demand, and it is detrimental to wellbeing.

Wealth inequality between regions continues to grow, and we anticipate this will worsen. The UK is home to significant inequality between regions—with London and the South East holding a disproportionate concentration of wealth. This is not only a national-level problem, but **a significant spatial problem,** with many communities excluded from growing national wealth.

Inequalities in wealth generate inequalities in income, which in turn feed back into inequalities in wealth. This is not sustainable and our findings imply that such a spiral may well be present in the UK. For instance, **around 40 per cent of investment income in the UK is generated in London and the South East despite being home to only one quarter of the population**, and an increasing share of total unearned income is accumulating there. Capital gains, dividend income, buy-to-let landlords, and estate inheritance are also concentrated in London and the South East.

Sources of income are not equally taxed. **Earnings from work are generally taxed more heavily than incomes from wealth.** By exploring the regional distribution of where taxes are paid and comparing this to the advantages of the tax system for incomes from wealth as compared to earnings from work, we conclude that **the tax system is accelerating regional inequalities.**

There is a high concentration of wealth stocks and incomes from wealth in some parts of the country and the low levels elsewhere. For instance, **chargeable capital gains per head amount to over £2,400 in London but only £500 in Wales.** Given that

capital gains have a significant tax advantage over work, this shows the way spatial inequalities are systematically reproduced.

We find **the tax advantage on incomes from wealth accrue overwhelmingly to London and the South East**, across capital gains tax, dividend tax and inheritance tax.

This isn't inevitable. The last government's reforms **removing the ability of buy-to-let landlords to offset mortgage interest payments when calculating their taxable income has reduced a tax advantage which overwhelmingly accrued to London and the South East.** From this, we can see how reforming those tax inequalities which exacerbate regional inequality is possible, practical and politically viable.

Council tax is the closest thing in the UK to a tax on a stock of wealth yet this also drives regional divergence. Our analysis shows **more council tax is paid relative to property value in areas of the country with lower property value like the North East than higher values like London.**

From this analysis, we conclude that **the under taxation of incomes from wealth is an aggravating factor, worsening regional inequalities.** Tax is not only a means of raising revenues, but shapes our socioeconomic outcomes. We conclude **a fair tax system could slow growing regional inequalities.**

We suggest a set of principles such a system should embed. We believe the tax system should:

- be fair to workers, not advantage incomes from wealth
- support productive economic activity, prioritising wealth creation over extraction
- be progressive over the totality of income, whether earnings from work or incomes from wealth
- contribute to wider societal goals
- close routes for the wealthy to avoid paying tax in line with the aims of the tax system.

We recommend that the government should consider the tax system's role in accelerating regional inequality and should consider the following.

- **Taxing all income equally**: In the long-term we propose a unified tax schedule for all income types, including capital gains and dividends, to align with income from work by the end of this parliament. In the short-term, **we propose the equalisation of capital gains tax with income tax** implemented at the first fiscal event of this parliament.
- **Reforming property tax**: In the long-term we support replacing the outdated and regressive council tax with a proportional property tax to reduce regional inequalities over this parliamentary term. In the short-term, **we propose immediate reforms, such as higher premiums on empty homes and two new additional higher council tax bands** at the next fiscal event
- **Reforming the transfer of wealth:** In ther long-term we propose replacing inheritance tax with a lifetime capital acquisitions tax to reduce intergenerational wealth inequality in this Parliament. At the budget we propose **capping IHT reliefs on business and agricultural transfers** to minimise tax avoidance now.

To redouble the impact of reforms in slowing regional divergence, additional **spending funded by these tax changes should target closing regional divides.**

This report points towards the role that tax reform could play in regionally rebalancing the country. The new government should consider all the tools available and prioritise fairness and prosperity to do so.

1. INTRODUCTION

The essence of regional rebalancing reflects the vast inequality observed in the UK. This inequality has left many places outside London and the South East locked out of wealth. The last government reflected this in its 'levelling up' ambition, and the current government has committed to delivering its missions on growth, energy, policing, opportunity, and health in every corner of the country.

Regional inequality is a major concern for the public. Resolving regional inequality currently sits well within the political mainstream, and all parties have shown sustained interest in what a policy response could and should look like.

The UK is a wealthy nation. Wealth — given its central role in conferring many of the advantages that are so unequally distributed in the UK in the 21st century — is a primary concern for those looking to regionally rebalance the UK.

Wealth is regionally unequal. The unequal distribution of wealth has several drivers: the way wealth is created, housing, insecure and low paid work, inheritance, and so on.

Taxation also shapes wealth accumulation, especially the taxation of income from wealth. This interacts with the distribution of wealth, including spatially.

This report explores that interaction. We find that that the under taxation of income on wealth is a driver of growing regional inequalities, largely because stocks of wealth (and incomes from them) are so spatially unequal that tax advantages on them also accrue unequally. Unfairness in our tax system, giving advantage to income from wealth over income from work, thus accelerates regional inequalities.

To understand this, the report describes the way in which stocks of wealth, and incomes from them, are regionally unequal and how this has evolved. We then describe what wealth taxation looks like in the UK today and why we consider incomes from wealth to be undertaxed relative to work. Then, we set out our understanding of why the under taxation of incomes from wealth and regional inequalities in wealth are related. We set out the implications of this and our proposals for how the UK tax system could be improved to be fairer to working people, reduce regional inequalities, and shape the economy to provide better, more regionally balanced economic growth.

Wealth inequality, underpinned and exacerbated by today's tax system, is bad for growth, for economic stability, and for fair access to opportunity for all.

2.
THE FAIRNESS OF WEALTH

SUMMARY

Wealth inequality captures the unequal distribution in what people own, namely private pension, property, and financial and physical assets. Growing wealth inequalities make the UK less fair and hold our economy back from delivering prosperity. The design of our tax system actively contributes to this problem. It represents a systemic barrier, undermining the meritocratic ideals central to today's political centre ground.

WHY SHOULD WE CARE ABOUT WEALTH INEQUALITY?

The UK is a country that professes to believe in meritocracy and social mobility, even as inequality rises and people are locked out of opportunity and good life outcomes (Johns et al 2024). Belief that the UK is meritocratic — that hard work and merit brings all fair reward across a national level playing field — has risen sharply since the 1980s, reaching almost universal agreement, particularly among working class people (Mijs and Savage 2020).

This thinking is embedded in our political system, with all major parties expressing meritocratic values (Menon 2021). However, it is increasingly recognised that it is not working. For instance, the Labour Party's missions for Government centre their mission to break down barriers to opportunity on this failure:

> ***"The promise we tell our children and grandchildren that if you work hard and play by the rules, you will get on in life is sadly no longer the case for too many people. Where you are born and how wealthy your parents are too often determines where you end up. We've got to break that link."***
>
> Labour party 2024

There is a strong spatial dimension of poor outcomes across many measures. This clustering together means that not only does where you live significantly influence your financial position, but also the opportunities open to you, your quality of life, and even how long you can expect to live (Johns et al 2024).

Wealth inequality is increasingly the major driver of wider socio-economic inequality given how it both builds up over the longer term and offers wide-ranging advantages to the wealthy (Savage et al 2024). It is not only an inequality in and of itself, but also a driver of broader inequalities in life. While growing wealth inequality has attracted increasing interest from policymakers and researchers (Advani, Bangham and Leslie 2020), it is not yet central to policymakers' views of regional rebalancing.

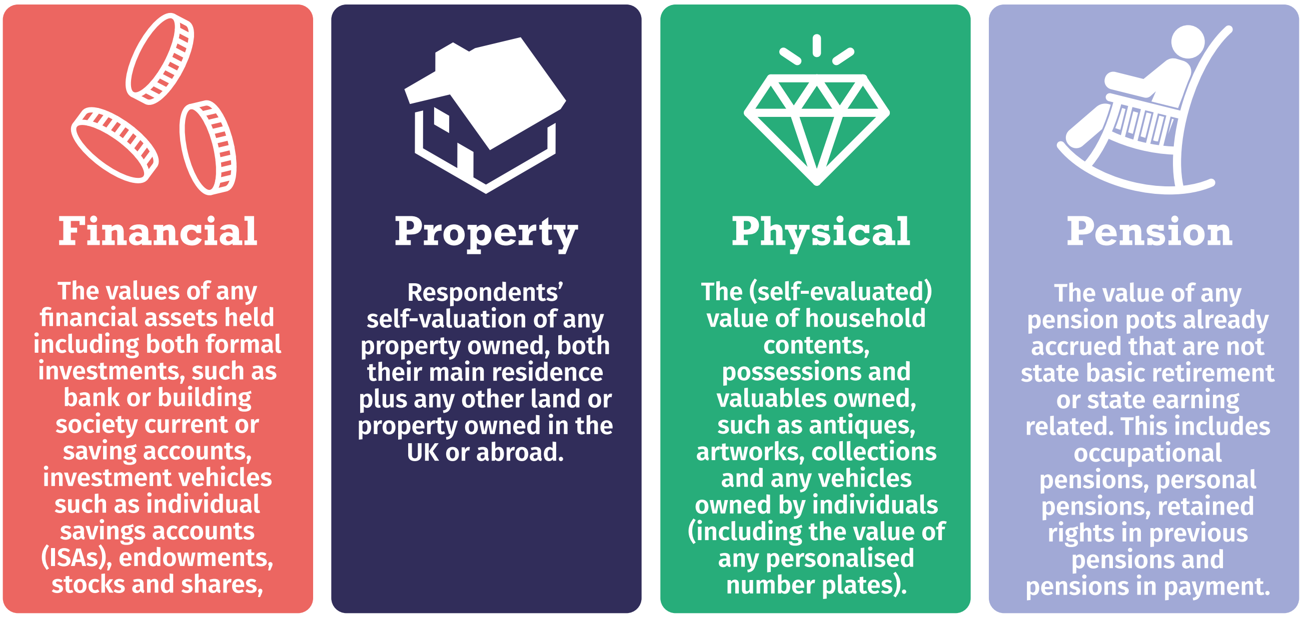
A diagnosis and policy solution to the problem of spatial wealth inequality should form part of efforts to regionally rebalance the UK.

WHAT IS WEALTH?

Wealth is what people 'own' at a point in time. It is distinct from income, which describes how much money a person has coming in over a period of time. Another way to conceptualise this is of wealth as a 'stock' measure of money whereas income is a 'flow' measure.

Wealth is stored in four primary forms as outlined by the Office for National Statistics (figure 2.1).

FIGURE 2.1: THE TYPOLOGY OF WEALTH



Source: Authors' analysis

Wealth typically increases where household incomes exceed day-to-day spending, and is then saved as a form of wealth.[1]

WHY DOES WEALTH INEQUALITY MATTER?

Wealth inequality is unfair and hinders broader prosperity. Wealth's intensifying concentration widens the divide between those with and without it, whether across places or generations. This inequality is unsustainable, constrains growth, slows social mobility, and exacerbates wider inequalities in the UK.

Globally, growing wealth inequality is unsustainable, risking macroeconomic stability, long-term economic growth, and an inegalitarian spiral of ever larger divides between the wealthiest and the rest (Piketty 2014, Johns and Hutt 2023), with challenges for social cohesion and democratic politics if left unchecked (Savage et al 2024).

1 These incomes are sourced in different ways, including earnings from work, inheritance from others, or from profiting from the sale of assets which have increased in value, for example.

WHY IS WEALTH INEQUALITY UNFAIR?

Mainstream UK opinion holds two relevant views on fairness, despite political differences: equal expectation of common goods and rights like universal healthcare, and equality of opportunity. Wealth inequality interacts with other inequalities, countering this sense of fairness and undermining the social contract.

Impact on living standards

Wealth is a pillar of living standards, permitting direct consumption to improve living standards. It provides wider benefits like financial security, good health, secure housing, and often influence or political power (Roberts and Lawrence 2017, Satz and White 2021, Savage et al 2024).

Agendas such as levelling up concede that mainstream UK political opinion views spatial inequalities as unacceptable in areas such as life expectancy or exposure to violent crime (DLUCH 2022).

Impact on opportunity

Wealth also enhances opportunity, providing socioeconomic advantages like better education and access to networks. Life chances are improved significantly by wealth (Roberts and Lawrence 2017). This sustained advantage for the wealthy reproduces inequality and blocks social mobility (Piketty 2014, Kerr and Vaughan 2024). The growing spatial concentration of wealth also concentrates such advantage and opportunity.

Not only do wealth inequalities contribute to the concentration of opportunity away from some places, but they also limit labour market mobility in accessing opportunity elsewhere.

The ability to move to another part of the country in pursuit of education, different opportunities or specific qualities of places is one means of social mobility. Evidence suggests that people from more deprived areas of the country, with lower access to wealth, are less likely to move away from home. This can inhibit their search for the best job to best match their skills (Advani et al 2022). This is perhaps unsurprising given the large upfront costs of moving, particularly to more expensive areas such as London. The resulting poorer job matching harms productivity and ultimately prosperity, while also limiting equality of opportunity.

Undermining the social contract

The UK's common meritocratic view holds that effort and merit ought to be rewarded. However, social mobility is declining, particularly in the North and the Midlands (Johns et al 2024). The idea of equality of opportunity is also seen in the UK's welfare system embedding the notion of work as the escape route from poverty (McNeil et al 2021). However, this route has broken down (Johns et al 2024).

Fair reward is out of reach for many, while wealth grows rapidly for existing wealth holders without effort or merit. The envisaged equal playing field is disrupted, and growing divides between those with and without wealth contradict the idea of the UK being a meritocratic place.

Wealth tends not to be earned

Wealth mainly accumulates because of external factors (Roberts and Lawrence 2017). In fact, 60 per cent of all private wealth in the UK is inherited (Alvaredo, Garbinti and Piketty 2017). There is a pronounced gap between those who inherit, and use wealth to accumulate more wealth, and those trying to earn their way to wealth through work — with ever higher barriers to social mobility and deepening distinction between the wealthy and the rest (Kerr and Vaughan 2024). These groups are geographically clustered, meaning this distinction is also a highly geographic.

HOW DOES WEALTH INEQUALITY HARM PROSPERITY?

Inequality hampers growth, leading to a less prosperous UK. It undermines long-term growth and macroeconomic stability (Johns and Hutt 2023, IMF no date).

Limiting entrepreneurship

Wealth enables risk-taking and entrepreneurship, but growing inequality locks many out of these opportunities. Entrepreneurship is a fundamental tenet of capitalism and cannot exist without risk. Wealth confers opportunity partly because it provides the security required to take risks. Many of the most successful entrepreneurs are linked by access to financial capital, largely inherited (Roberts and Lawrence 2017). Equality and growth are often treated as opposing goals, but those who want entrepreneurship to drive the UK economy should be concerned how far wealth inequality locks communities out of participating.

Disrupting the housing market

Asset value appreciation, particularly in property, impacts the housing market. This drives divergence between incomes and housing costs, especially for low-income households. Housing costs represent a proportion three-and-a-half times larger for the poorest quarter of the population than the richest quarter (Cribb, Wernham and Xu 2023). The growing share of household income spent on housing costs depresses wider household spending, reducing economic demand and household financial security with higher risk of indebtedness for those without assets (Roberts and Lawrence 2017).

Diverting investment into assets and incomes out of regions

This also diverts investment away from productive activity. Trends like financialisation and renitierisation exacerbate this, raising questions about the UK's longstanding productivity puzzle and uneven regional development (Christophers 2019). Much of this concerns corporate activity, which IPPR has discussed elsewhere (see Dibb et al 2021). We consider that the under taxation of incomes from wealth plays a role in capital flowing inefficiently into asset holdings and rent seeking, rather than productive investments.

It follows that alongside wealth inequality, low public and private investment is a hallmark of the UK economy (Dibb and Murphy 2023). This has a severe regional dimension. Missing foundational investment in the north of England is a brake on regional growth (Johns and Hutt 2023). A fairer tax system, prioritising productive activity and supporting a more regionally equal nation, could create the incentives and help drive systemic change *and* support additional state investment in this kind of activity, which IPPR North has long called for (see for example Johns and Hutt 2023).

This report highlights a disproportionate amount of investment income accruing to London and the South East. While data about the financial flows between regions is limited, substantial rent seeking flows into wealthier regions are likely to be significant. This dynamic challenges the common myth that London and the South East are the sole drivers of the UK economy, with dependent regions relying on tax revenues flowing out from them. There is evidence that public projects in other regions often see benefits flow significantly out of them into London and the South East due to their dominant financial and corporate position (Leaver 2013). Our analysis leads us to infer that this dynamic is wider, and includes aspects such as flows from renters to landlords. It merits further exploration, but the role that the tax system plays in underpinning such flows is noteworthy.

Limiting wider prosperity

Prosperity means more than the total size of the economy — it captures living standards and wellbeing. Problems linked to wealth inequality reduce wellbeing, including housing affordability pressures, financial insecurity, and poverty. If we recognise widespread wellbeing as prosperity, then achieving widespread prosperity means addressing wealth inequality.

TAXATION OF WEALTH AND REGIONAL INEQUALITY

Wealth inequality is a global problem, and thinkers like Piketty (2014) argue that declining tax rates, especially for the wealthiest, stoke both high inequality and low economic growth globally.

Taxation is about more than revenue raising. Forms of taxation create incentives and shape all manner of economic activity: production, consumption, and savings. They shape the distribution of economic opportunity and success: who benefits from the tax system is a matter central to building a more progressive economy.

3.
THE SHAPE OF WEALTH

SUMMARY
The UK is home to significant spatial wealth inequality—with London and the South East significantly dominant. Wealth is about what we 'own' and is accumulated when we spend less than we earn. It is stored in four primary forms in order of proportion of UK wealth: private pension, property, financial, and physical wealth. Wealth inequality is growing between UK regions, and we expect this divergence to continue. It follows that those differences in income from wealth, such as dividends or rental income, will also grow over time with an increasing concentration of unearned income in the south of England. The way we tax these incomes matters and is the subject of this chapter.

HOW IS WEALTH DISTRIBUTED IN THE UK?

Wealth is increasingly unequal, and this is well recognised — particularly when analysed against the income distribution. It is a spatial problem too, and entrenches longstanding regional divides. London and the South East are pulling away from other regions in terms of wealth. This section of the report sets out our understanding of wealth stocks, incomes from wealth, and their spatial distribution. It shows how wealth inequalities have grown over time, leaving many communities and regions locked out of wealth and opportunity.

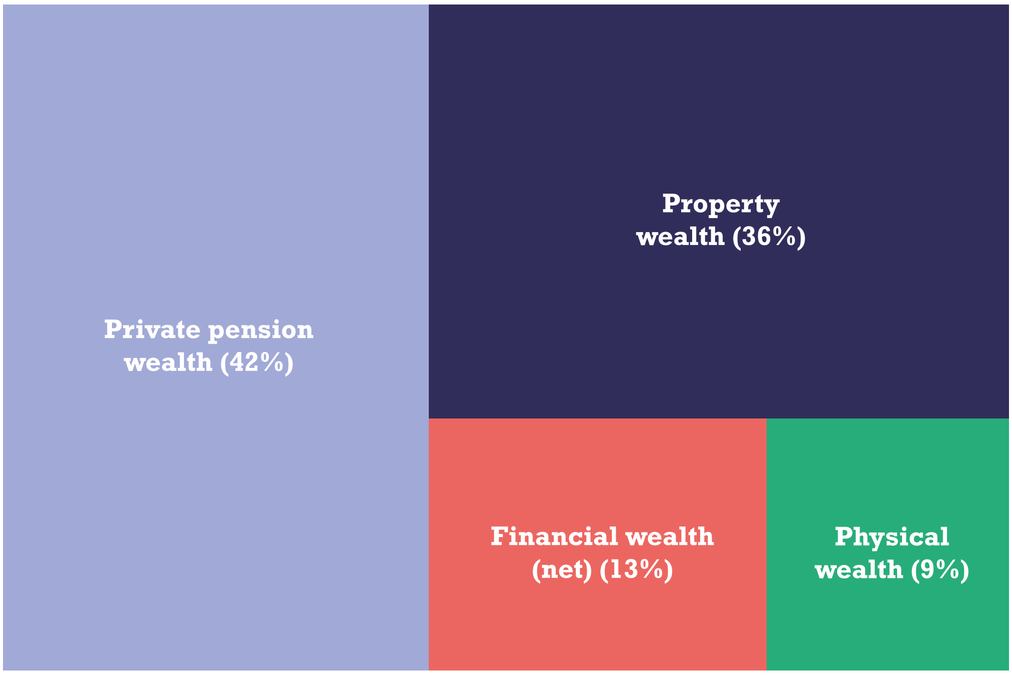
WEALTH IN THE UK HAS FOUR MAIN COMPONENTS

When people think about wealth they often, in a UK context, think about property. While this is significant, net property wealth[2] only accounts for around a third (36 per cent) of total wealth in Great Britain. The largest element overall rests in private pension pots (42 per cent) — then property, followed by financial and physical wealth.

2 ie net of debt, principally mortgages.

FIGURE 3.1: PRIVATE PENSION WEALTH AND PROPERTY WEALTH ARE GREAT BRITAIN'S LARGEST WEALTH STOCKS

Breakdown of total wealth in Great Britain, £ billion (April 2018 to March 2020)



Source: ONS 2022a

Note: Property and financial wealth are net of financial liabilities such as outstanding mortgages.

In recent decades (2006-2020) over half of total growth in wealth has been private pension wealth (52 per cent share of GB's total growth in wealth), while over a quarter has been in net property wealth (28 per cent).

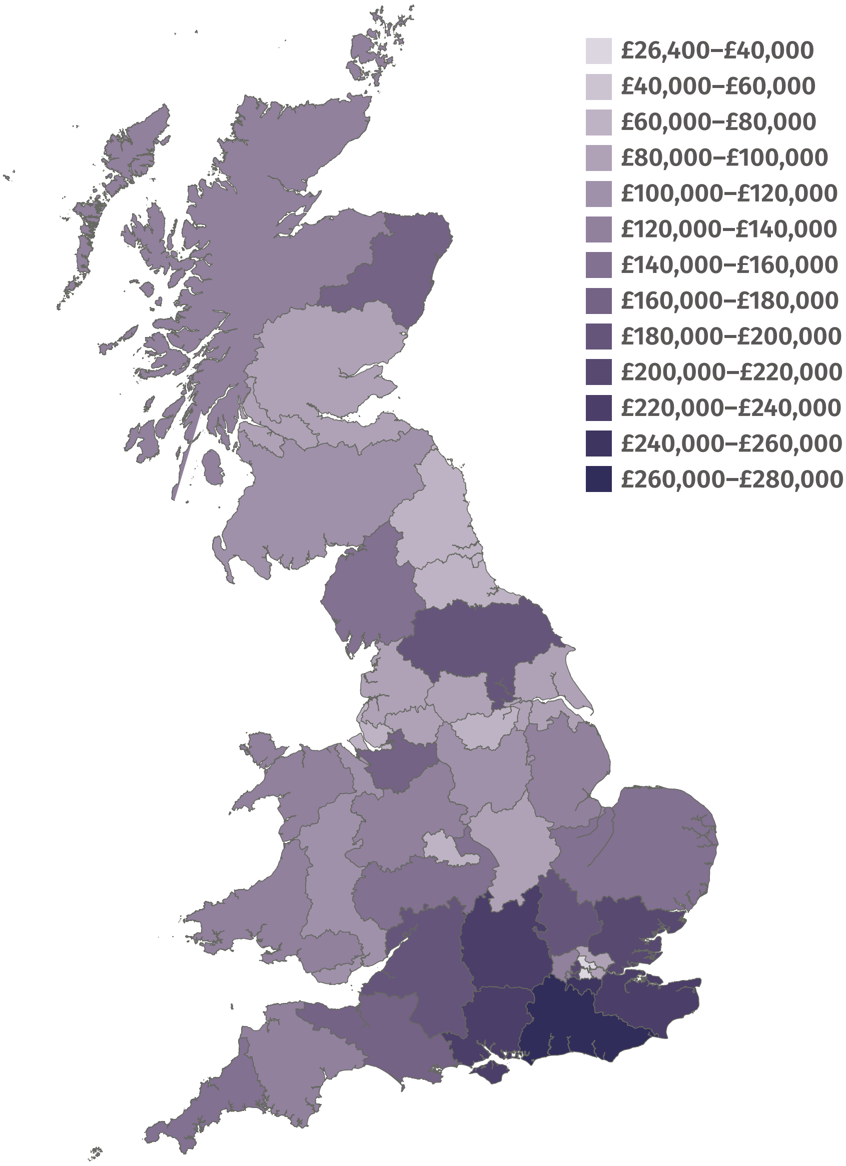
Wealth is spread very unequally across the country

Wealth is very unequally distributed across places, and this is accelerating rapidly. Regional inequalities have widened — particularly when comparing London and the South with the North, Midlands, and devolved nations. (Johns et al 2024).

Some areas of the country are much wealthier than others. Median wealth per head in Surrey, East and West Sussex is estimated at over £250,000 for instance, over ten times higher than Inner East London.

FIGURE 3.2: DESPITE COLDSPOTS IN EVERY REGION, WEALTH IS OVERWHELMINGLY CONCENTRATED IN THE GREATER SOUTH EAST COMPARED TO THE MIDLANDS AND THE NORTH

Median total individual wealth by ITL2 region (£) in Great Britain



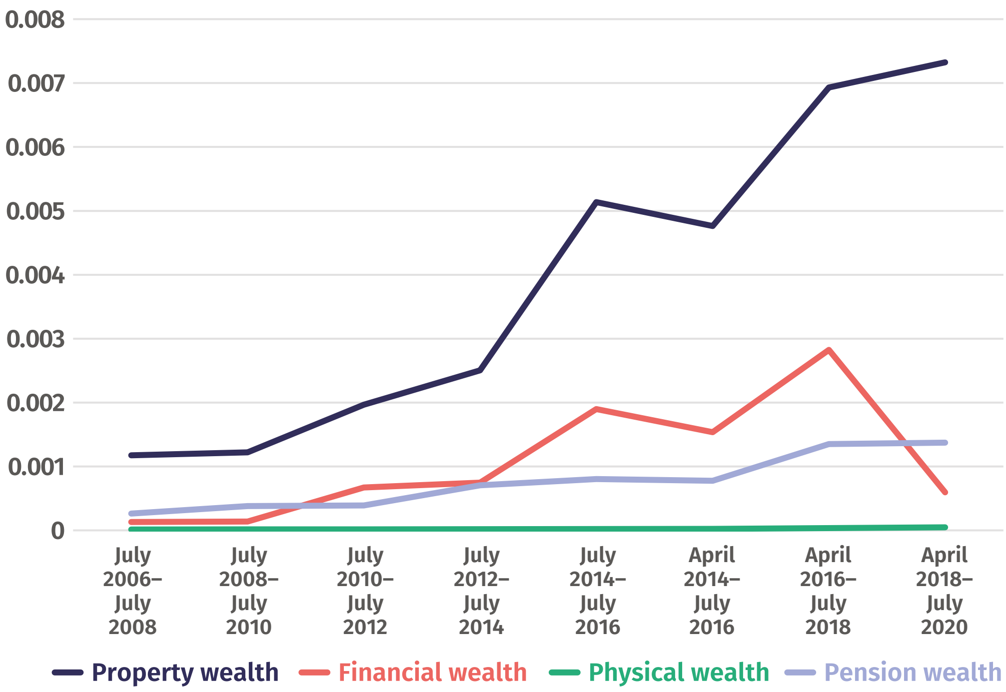
Source: Recreated from Johns et al 2024, ONSc

Wealth is concentrated in the south of England but there are substantial variations within regions. For instance, there are wealth cold spots in the South, such as East London. Nonetheless, almost half of aggregate wealth is found in the South, where 40 per cent of the population live compared to 20 per cent of wealth being in the North with 30 per cent of the population (ibid). And these figures are likely to under-estimate the extent of regional divides given the tendency for the super-wealthy, generally more likely to inhabit London and the South East, to avoid survey data altogether (Advani et al 2020).

Over time, these differences have become starker between regions. Variation in net property wealth is the most significant driver of the divergence. For example, property wealth in London has increased 116 per cent between 2006-2008 and 2018-2020, equivalent to a total increase of £600 billion, compared to the North East where net property wealth is essentially unchanged over that same period (IPPR analysis of ONS 2022a). There have been more modest increases in variation at regional level among pension and financial wealth too.

FIGURE 3.3: PROPERTY WEALTH HAS DIVERGED THE MOST IN GREAT BRITAIN SINCE 2006

Regional variance in household property wealth per household by wealth category 2006–08 to 2018–20



Source: ONS 2022a

Net property wealth divergence matters because:

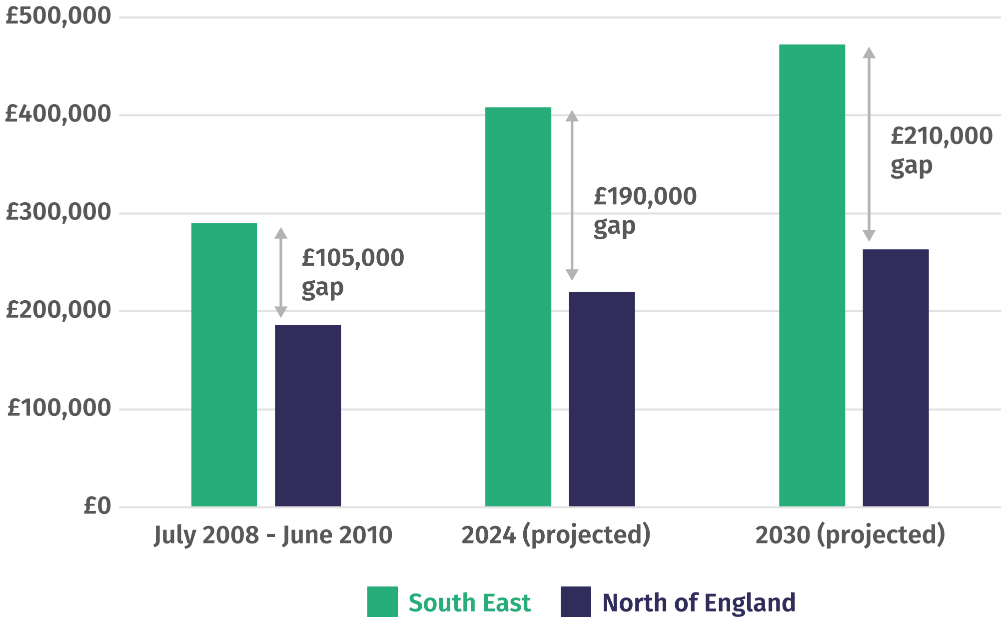
- It partly captures rising property values, which are increasingly a barrier for younger people and those without inheritance from owning a home, and owning property is a major element of wealth accumulation.
- It concentrates investment and value in a part of the economy characterised by rent-seeking over genuinely productive activity in the real economy.
- It benefits no place entirely. High property wealth confers significant advantage, but high property values such as faced by communities in Inner East London lock many out of property wealth due to housing costs, slowing social mobility.
- It provides for significant inequalities of inherited wealth in future.

According to previous IPPR analysis, under reasonable assumptions[3], the wealth gap between places is projected to grow further.

3 See Johns et al 2024 for more information

FIGURE 3.4: WE EXPECT REGIONAL WEALTH INEQUALITIES TO WIDEN OVER TIME

Actual and projected wealth per head (£, 2023 prices) in South East England compared to the north of England 2008 to 2030



Source: Authors' analysis using ONS 2022a and OBR 2024a

In 2010, the average wealth per head in the wealthiest region, the South East, was around £105,000 higher than the north of England's average. However, by 2030 the gap could more than double to approximately £220,000 per head.

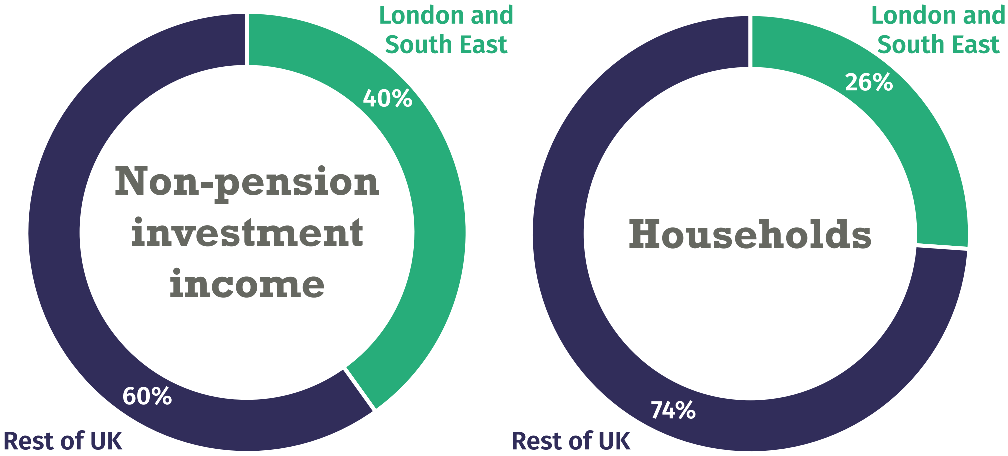
Inequalities in wealth generate inequalities in income

As identified, one reason wealth inequality matters is because it generates unearned income - for example income from dividends or rents. If that wealth is unequally held, as it is in the UK, then those financial benefits are also unequally accruing.

We find that around two fifths of all investment income (excluding pensions) in the UK is captured in just two regions: London and the South East.

FIGURE 3.5: TWO-FIFTHS OF ALL NON-PENSION INVESTMENT INCOME IN THE UK IS GENERATED IN LONDON AND THE SOUTH EAST, DESPITE ONLY A QUARTER OF PEOPLE LIVING THERE

Share of UK total gross non-pension investment income and share of total households (2020/21–2022/23)



Source: IPPR analysis of DWP 2024a
Note: Figures represent three-year averages. Figures include regular income from savings, dividends, bonds and income from rental property, but exclude irregular income sources such as capital gains.

We further find that the proportion of investment income accruing to these regions has trended upwards since around 2017/18. As wealth continues to diverge, we expect this to worsen too — with more of total unearned income accruing to London and the South East. In general, this income is more lightly taxed than earnings from working — which we turn to next.

4. THE TAXATION OF WEALTH

SUMMARY

The UK tax system under taxes income from wealth over earnings from work. This preferential treatment benefits the south of England considerably more than everywhere else. As regional inequalities in wealth are on track to widen, the tax system should play a role in minimising this trend, not exacerbating them as is currently the case. It's time to fairly reform taxation of income from wealth, both to raise essential revenue from those with the broadest shoulders and to reduce regional inequalities that hold places down.

HOW ARE INCOMES FROM WEALTH TAXED IN THE UK COMPARED TO WORK?

Taxation of income from wealth is highly favourable versus taxation of income from work in the UK. Given the regional inequalities identified above, it follows that the tax system is tilted in favour of wealthier areas, exacerbating regional imbalances.

This chapter describes the taxation of wealth in the UK and the ways in which incomes from wealth are treated differently, presenting this alongside available regional data to build a picture of who benefits from this preferential treatment in the round.

TABLE 4.1: THE DIFFERENT ELEMENTS OF WEALTH TAXATION ANALYSED IN THIS SECTION

Forms of tax analysed and how they have been considered

Form of tax analysed	How is tax treatment different to work?	How do we investigate the extent of regional inequality?
Capital gains tax	Separate annual exempt amount for CGT income, lower rates of tax on chargeable amounts.	Taxable gains by region.
Dividend tax	Dividends have a separate tax-free allowance, and rates of taxation are lower than income tax, alongside no NICs payable.	Rates of share ownership and amount of shares owned. Tax benefit modelling on the effects of dividend equalisation.
Council tax	Higher effective rates of tax paid relative to property value for lower valued properties.	Council tax paid relative to property value by region.
Income tax on landlord income	Rental income is exempt from national insurance contributions.	Proportion of households with buy-to-let.
Taxation of private pension income	Private pensions are exempt from national insurance contributions.	Distribution of pension wealth.
Inheritance tax	Is a one-off tax on wealth transfers, with significantly higher tax-free allowances.	Inheritance tax paid per head per region.

Source: Authors' analysis

We recognise in considering inheritance tax that it is a transfer rather than being strictly a tax on income. But it is a transfer that plays a significant role in the distribution of interregional wealth.

Capital gains tax: Systematically giving a tax advantage to capital gains over work

When individuals buy or sell an asset for more than they purchased it, they are liable to pay capital gains tax on the profits made, provided such profit exceeds the annual exempt amount of £3,000. There are higher rates for residential assets than non-residential ones (such as shares or antiques), and main homes (or primary residences) are exempt.

TABLE 4.2: TAX RATES ON CAPITAL GAINS ARE CONSIDERABLY LOWER THAN TAX RATES ON WORKERS' WAGES

Capital gains tax rates compared to tax rates on wages from work

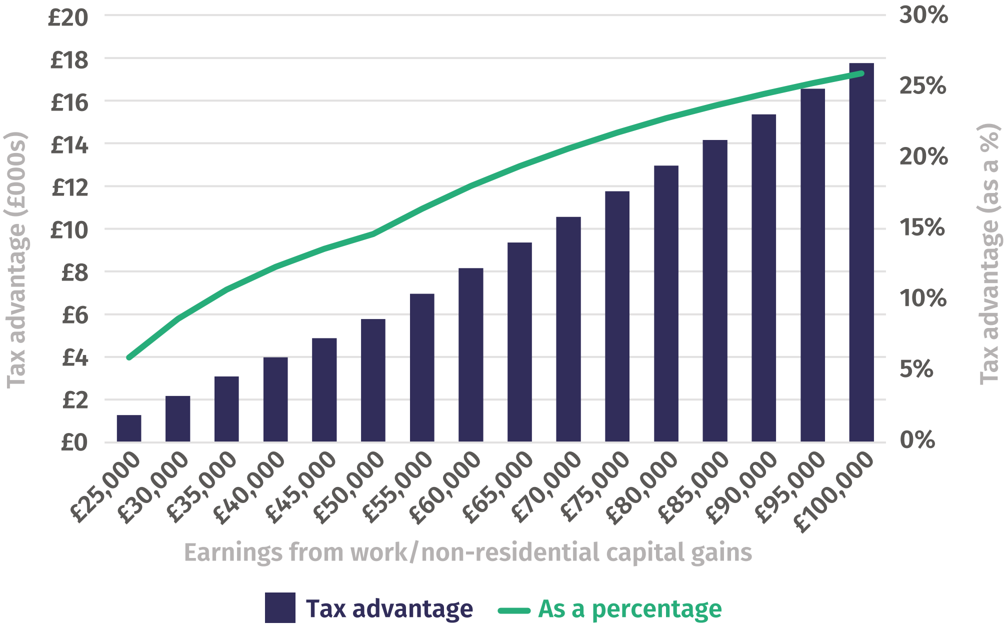
	Basic rate taxpayer	Higher rate taxpayer	Additional rate taxpayer
Non-residential gains	10%	20%	20%
Residential gains	18%	24%	24%
Work (including national insurance)	28%	42%	47%
Rate of under taxation	+ 18%	+ 22%	+ 27%

Source: IPPR analysis of HMG 2024a, 2024b, 2024c

To illustrate, someone making £50,000 per annum purely from capital gains would pay around £6,000 less than someone who earnt £50,000 per annum from wages alone — as shown in figure 4.1. We call this difference in taxes paid or income kept a tax advantage. Although these lower rates are designed to encourage investment and risk-taking we argue these differences represent a fundamental unfairness, with the prospect of unearned income incentive enough to encourage investment.

FIGURE 4.1: CAPITAL GAINS ARE MUCH MORE LIGHTLY TAXED THAN WAGES

Tax advantage from capital gains vis-à-vis earnings from work



Source: IPPR analysis of HMG 2024a, 2024b, 2024c

Note: Assumes gains are non-residential.

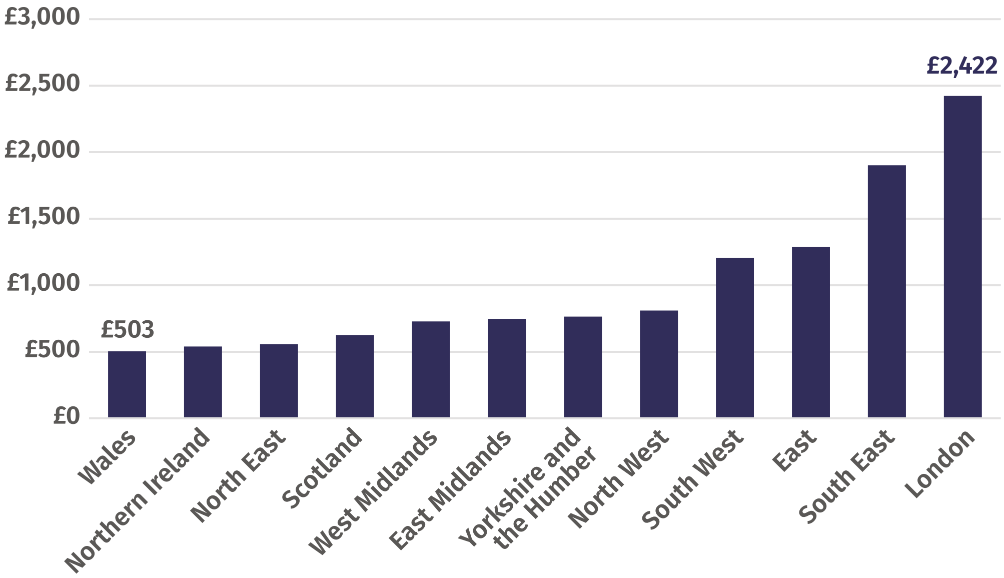
Despite some improvements in recent years that have reduced the tax advantage such as a reduction of the annual exempt amount, these differentials remain substantial, as shown above.

Where are those benefitting from capital gains?

These substantial differences are particularly problematic considering capital gains' geographical distribution. Although there is considerable variation within places (Advani et al 2024), they are significantly higher on average in London and the South East. Indeed, gains per head are five times higher in London than in Wales.

FIGURE 4.2: CAPITAL GAINS ARE HIGHLY CONCENTRATED IN LONDON AND THE SOUTH EAST

Chargeable capital gains per head, by UK region, three-year average (2021/22–2019/20)



Source: Authors' analysis of HMRC 2023, ONS 2024

Taking these findings, it follows that some parts of the country benefit considerably more from capital gains' favourable tax treatment over earnings from work, contributing to existing regional inequalities in income.

Equalising the rates of capital gains to income tax rates would raise substantial sums for the exchequer in the coming few years. Our estimates if this were introduced from April 2025 are set out below.

TABLE 4.3:EQUALISING CAPITAL GAINS TAX RATES TO INCOME TAX RATES WOULD RAISE £68 BILLION BY 2029/30

Amounts raised (£, billions) per annum by equalising capital gains and income tax rates 2025/26 to 2028/29

	2025/26	2026/27	2027/28	2028/29
Equalise CGT rates	16.6	16.2	16.5	18.3

Source: IPPR analysis of HMRC 2023c, 2023d; OBR 2024b

Some economists have argued that to maintain incentives to invest, alignment of the rates should be accompanied by the introduction of a 'rate of return allowance' (RRA) which would allow for some portion of any gains to be tax-free depending on the period the asset was held for (IFS 2011). An RRA would work by allowing investors to deduct a deemed 'normal' rate of return from their capital gains before applying tax. This normal rate could be based on either prevailing interest rates or inflation over the period the asset was held. Using interest rates would align the allowance with the opportunity cost of capital (ie had the money been invested elsewhere, what would reasonably have been accrued) while using inflation would ensure that only 'real' gains are taxed, not just those arising from the rising prices. However any argument for a RRA must be counter-balanced by the impacts on revenue, which previous studies have shown could be significant (Nanda et al 2019).

Dividends income tax: A lighter tax than for working people which creates opportunities for avoidance with regional implications

For income derived from share ownership (ie dividends) households benefit from a separate £500 dividend tax-free allowance. They then pay lower rates of income tax over those thresholds than were those incomes earnt from work. Such incomes are also exempt from paying national insurance contributions meaning that there are substantial differences in the taxes paid on the same levels of income under the guise of encouraging investment.

TABLE 4.4: DIVIDENDS ARE TAXED AT LOWER TAX RATES THAN EARNINGS FROM WORK

Dividend income tax rates compared to taxes on earnings from work

	Basic rate	Higher rate	Additional rate
Dividends rate	8.75%	33.75%	39.35%
Work rate	28%	42%	47%
Difference in rate	19.25%	8.25%	7.65%

Source: Authors' analysis of HMG 2024a, 2024b, 2024d

To illustrate this effect, consider 2 individuals earning £40,000:

- person A earns £35,000 from work and makes £5,000 from dividends
- person B earns £40,000 from work only.

We find that person B would pay over £1,000 of additional tax each year, or 15 per cent more tax as a result of this preferential treatment. Table 4.5 sets this out.

TABLE 4.5: PREFERENTIAL TREATMENT ON INCOMES FROM DIVIDENDS OVER EARNINGS FROM WORK PROVIDES A SUBSTANTIAL TAX ADVANTAGE

Illustrative households earning income through work compared to a mixture of work and dividends

	Person A *(£35,000 from work + £5,000 dividends)*	Person B *(£40,000 from work only)*
Labour market income	£35,000	£40,000
Taxes paid on labour market income	£6,280	£7,680
Dividend income	£5,000	£0
Taxes paid on dividend income	£394	£0
Total taxes paid	**£6,674**	**£7,680**

Source: Authors' analysis of HMG 2024a, 2024b, 2024d

At higher income levels, another route to reduce tax bills overall becomes highly incentivised, which is to effectively create a one-person business (so-called self-incorporation) and for that worker to then pay themselves dividends through company profits which are more lightly taxed. While this is legal currently, it remains a distortion of the tax system, and works differently to the intent of the tax system. It is only worthwhile at higher rates of pay given legal and other costs associated with incorporation, but it allows higher earners to pay less tax than the income tax system intends.

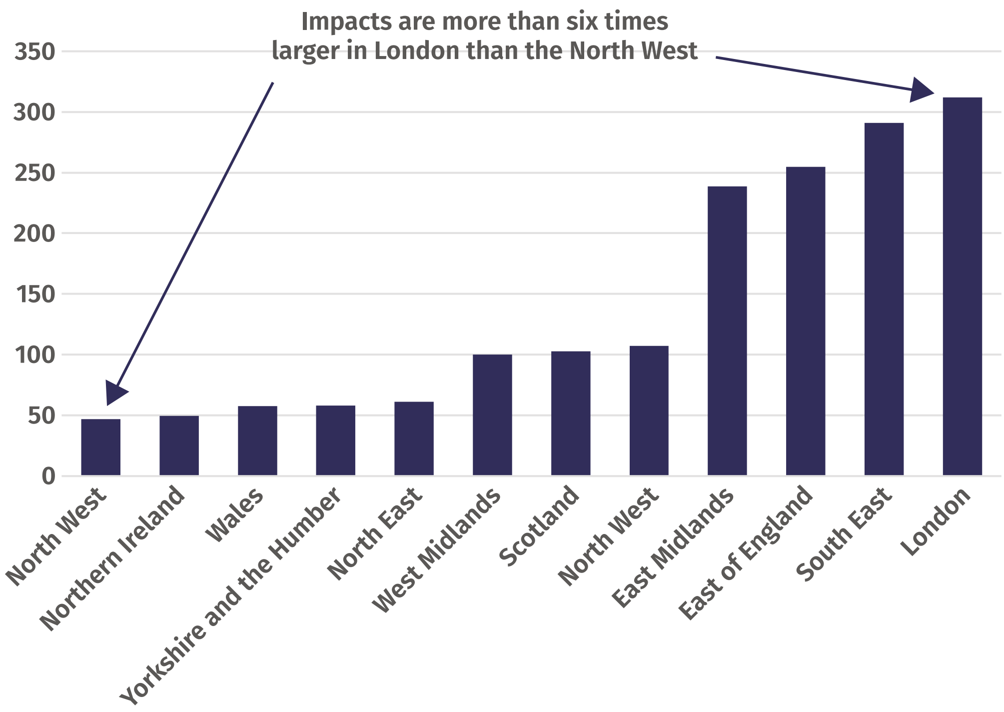
Where are shareholders found?

Analysis of the latest ONS Wealth and Assets Survey (ONS 2021) reveals that the South East has the highest level of participation in share ownership, standing at 16 per cent, twice as much as just 8 per cent in the North East — although the area with the highest overall amount of dividend income per household is in London.

Supposing tax rates were equalised between incomes from dividends and earning from work, our modelling suggests an average financial impact on households would be over 12 times higher in London than in Yorkshire and the Humber, where the impact would be lowest. There, households would pay 60 pence of additional tax a week on average, compared to £7.46 in London.

FIGURE 4.3: EQUALISING DIVIDEND TAXATION WOULD LARGELY IMPACT ONLY LONDON, THE SOUTH EAST AND EAST OF ENGLAND

Fiscal impact on weekly disposable household incomes from equalisation of dividend taxation, indexed (West Midlands = 100)



Source: IPPR tax-benefit model analysis, using DWP 2024b

This analysis demonstrates the extent to which those in London, the South East and the East in particular pay less tax in today's world than they would in a world where taxation of incomes from dividends was in line with taxation on earnings from work.

It is notable that these effects are somewhat less dramatic than had we modelled this seven years ago — when the dividend income allowance stood at £5,000 per person — meaning that even the richest individual could earn £5,000 tax-free from dividends. This adjustment to the tax system is momentum along the way to a fairer tax system, but as shown above there is still a case for going much further to address regional inequalities in who benefits from the UK tax system.

COUNCIL TAX: A HIGHLY INEFFECTIVE, POOR IMITATION OF A WEALTH TAX MAKING THOSE IN LOWER VALUE HOMES PAY RELATIVELY MORE

Council tax could be considered the closest tax that we have to a wealth tax in the UK, in that it is a tax related to the value of the property occupied, with higher-value properties in an area attracting higher levels of tax — with three significant limitations:

1. The property tax bandings are based on valuations conducted 34 years ago with the exception of Wales, where they were conducted 19 years ago. This would not be a problem if property value had changed equally across the country, but this has clearly not been the case since 1990 (Resolution Foundation 2024). The bands are increasingly arbitrary as values diverge between and within places (Adam et al 2020).
2. Council tax is regressive by design because of the way that bands are set up. Council tax bands are set at Band D level with each other band set relative to that. The fixed multipliers used are designed to increase more slowly than property values, making them regressive when compared to 1991 property values, especially given that there is a cap. This means that some of the most expensive property in the UK can attract the same bill as a more average family home elsewhere (Nanda 2021).
3. Rates are set at local authority level, with restrictions on the percentage growth from the level in that local authority in the preceding year and significant limitations on local authorities' ability to raise wider revenues compared internationally (Johns and Hutt 2023). So, there are significant variations between areas, even when comparing properties with similar values historically, in how much revenue is raised, and limited options for local places to address this without significant budgetary pressure.

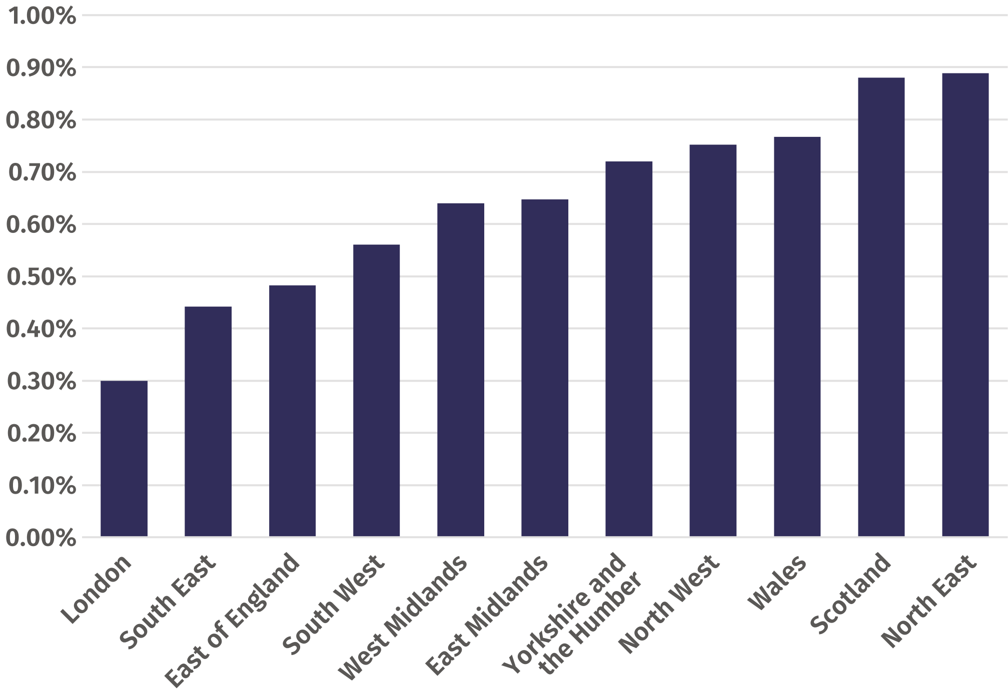
Combining these three limitations means that council tax operates as a poor proxy for a wealth tax, with some people paying council tax at much higher rates relative to their property value than others in different places.

Demonstrating the extent of this, we use nationally representative survey data to calculate annual council tax as a proportion of total property value and estimate how this varies across the country.

We find that owner occupiers in the North East can expect to pay 0.1 per cent of their property value in council tax annually, compared to less than 0.04 per cent of property values in London. This means that people in the North East are paying more than double the share of their property value in council tax than people in London.

FIGURE 4.4: COUNCIL TAX OPERATES LIKE A POORLY DESIGNED WEALTH TAX WITH REGIONALLY DIFFERENT IMPACTS

Median annual council tax as a proportion of total property value by region for mortgagers and owner occupiers only, Great Britain



Source: Authors' analysis of ONS 2022b

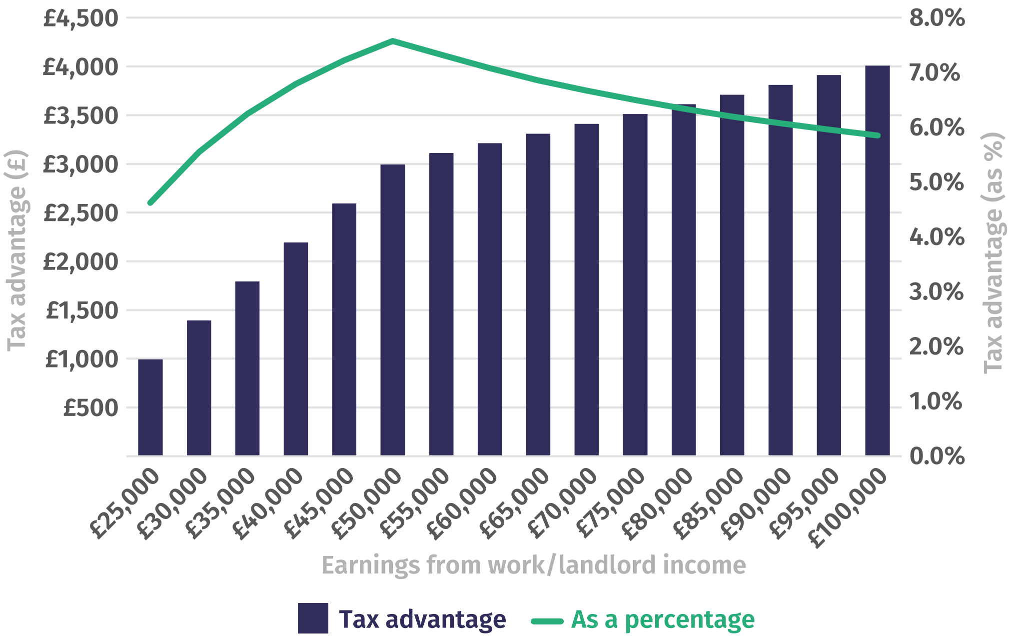
This relative over-taxation of lower value properties (exerting a downward pressure on property prices) and under-taxation of higher value properties (exerting an upwards pressure on prices) also contributes further to divergence in house prices.

LANDLORDS' INCOME TAX: SOME PREFERENTIAL TAX TREATMENT BUT RECENT REFORMS SHOW HOW TAX CHANGES COULD HELP SLOW SURGING INEQUALITIES

Landlords are liable to pay income tax on net rental income, meaning income minus costs they incur in providing the tenancy such as home maintenance. They do not pay national insurance contributions on this income however, and so in cases where the property is owned outright, incomes are taxed less heavily than for work. For instance, a worker on £50,000 will pay £3,000 more in tax every year than a landlord with the same annual income from rents alone, representing a fundamental unfairness.

FIGURE 4.5: LANDLORDS CAN PAY LESS TAX ON THEIR INCOMES FROM RENTS THAN HAD THEY EARNT THEIR INCOME FROM WORK

Tax advantage from landlord income vis-à-vis earnings from work



Source: Authors' analysis of HMG 2024a, 2024b.

Note: Assumes no mortgage costs, so profit represents just rental income minus deductible cost such as property maintenance.

However, the situation is more complex for landlords with ongoing mortgage costs, particularly for those with buy-to-let mortgages. In reforms introduced since 2017, Section 24 of the Finance Act 2015 increased taxes paid for higher and additional taxpayers due to changes in the handling of mortgage interest payments in tax calculations (National Property Buyers 2024).

This ended the previous tax advantage where buy-to-let landlords could offset mortgage interest payments against their income in calculating their taxable income. Such relief was not available to owner occupiers who did not have the ability to offset mortgage interest payments from their tax. With the advantage removed, buy-to-let landlords must now pay tax on all their rental income.

In many cases this has shifted the dial, meaning that landlord profits (after mortgage interest payments) can be more heavily taxed than income from work, as set out in the table below. This is justified, however, as they can continue to build up an asset at effectively zero-cost while continuing to retain profits, alongside benefitting from house price growth for the time the property is held (to 28 per cent CGT on these gains at point of sale)

This change has particularly impacted those who rely on high amounts of rental income, where this is offset by high mortgage costs.

TABLE 4.5: CHANGES IN THE FINANCE ACT 2015 HAVE REDUCED THE TAX ADVANTAGE OF RENTAL INCOME OVER INCOME EARNT FROM WORK FOR BUY-TO-LET LANDLORDS

Illustrative household tax calculations for different levels of income for buy-to-let landlords

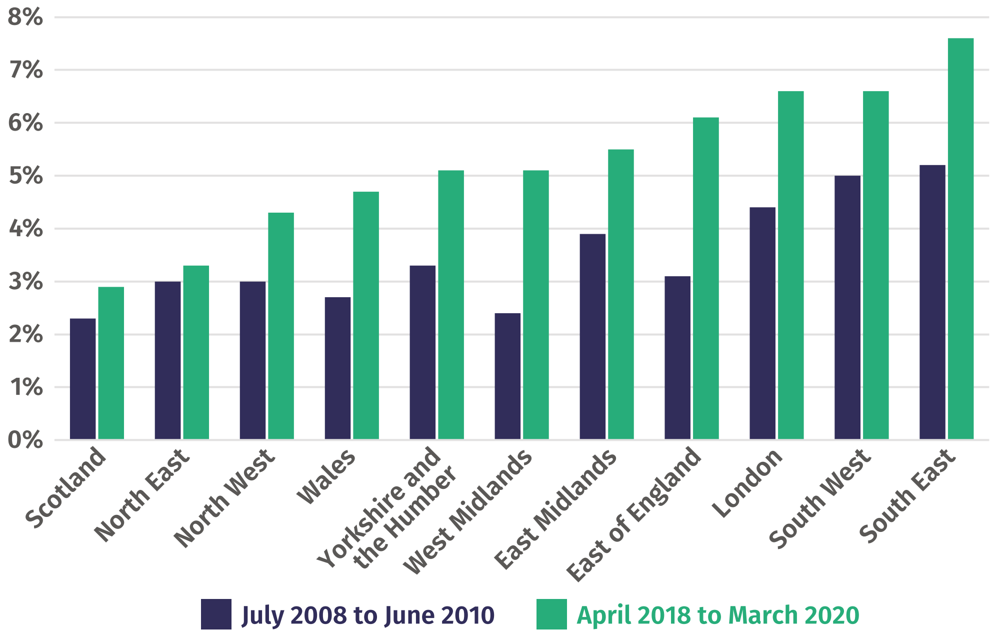
	Buy-to-let landlord with £40,000 profits	Lower earner with £5,000 annual profit on buy-to-let	Higher earner with £5,000 annual profit on buy-to-let
Income from work	£0	£25,000	£50,000
Rental income	£120,000	£15,000	£15,000
Mortgage costs	£80,000	£10,000	£10,000
Tax paid on rental income (old regime)	£5,486	£1,000	£2,000
Tax paid on rental income post section 24	£23,432	£1,000	£4,000
Tax paid if it had been additional labour market income	£7,680	£840	£1,470
Additional tax paid on landlord profits vs income	+ £15,752	+£160	+£2,530

Source: Authors' analysis

Around one in 13 households report owning a buy-to-let property in the South East compared to just one in 30 households in the North East, meaning households in the South East are over twice as likely to be buy-to-let landlords.

FIGURE 4.6: BUY-TO-LET LANDLORDS ARE MORE CONCENTRATED IN LONDON AND THE SOUTH EAST

The proportion of households with a buy-to-let property, UK



Source: Authors' analysis of ONS 2022b

Given the much greater prevalence of buy-to-let landlords in London and the South East, the aforementioned tax changes are likely to have played a role in slowing the growth of regional inequalities in their introduction. These relatively technical reforms illustrate the role which government can play in the taxation of income from wealth in a way that is fairer when compared to taxation of earnings from work. But it requires political will, in this instance to tackle distorting advantages in the buy-to-let market.

PRIVATE PENSION INCOME: FURTHER CONSIDERATION REQUIRED TO BALANCE FAIRNESS, EFFICIENCY, AND ENCOURAGING PEOPLE TO SAVE SUFFICIENTLY

Income derived from pensions is not subject to national insurance, resulting in lower rates of taxation than income from work, which does represent an unfairness in the tax system. Furthermore, previous IPPR research has indicated that higher rate taxpayers benefit from higher levels of tax relief on pension contributions (Stirling 2019) – actively contributing to and exacerbating disparities in pension savings between richer and poorer households.

However, the case for equalisation of the taxation of pension income upon receipt is more complex given the unique position of pension income and who can access it. For example:

- private pensions are likely the sole source of income (beyond state pension) in many cases for households and, at the point of retirement, options for increasing income in other ways are limited
- we already face major under-saving for retirement, and levying further taxes on this income would represent a further squeeze
- the geographical incidence of taxation on pensioner income is much more evenly spread across the population, to the extent that there are not as clear implications for regional rebalancing
- the payment of NICs is tied to entitlement for state pension, whereas most recipients of private pension income will have reached state pension age.

Although taxes on private pension income could be reformed to improve fairness in the system in some instances, this issue warrants much more detailed consideration and will be explored in future IPPR research.

Inheritance taxes: Sustaining wealth inequality from one generation to the next

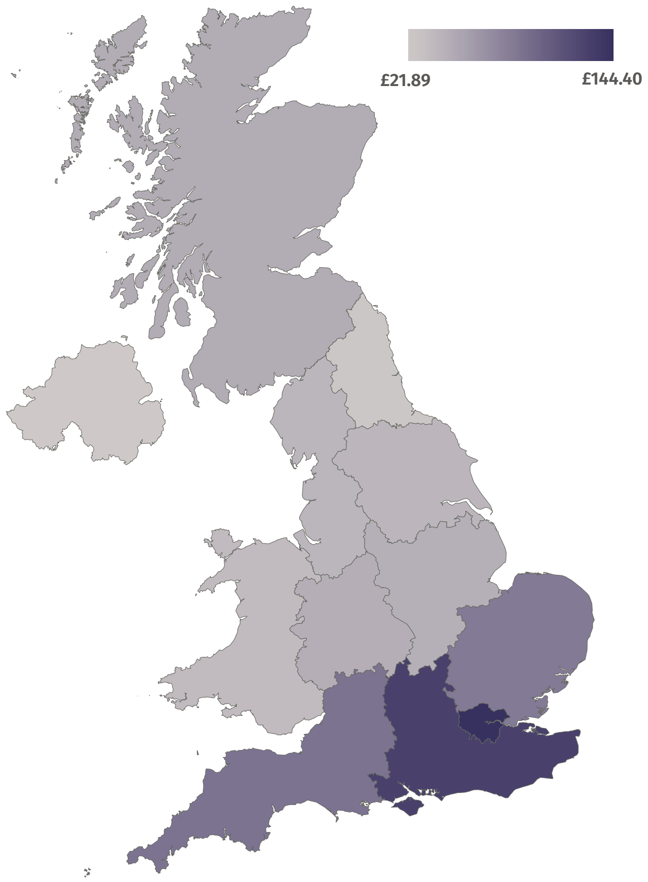
Although more strictly a tax on wealth transfers than on income itself, inheritance tax (IHT) could play a key role in addressing inter-generational inequalities.

Currently, IHT it is levied at a rate of 40 per cent on estates worth £325,000 for a single person or £650,000 for a married couple, with higher allowances for primary residences which mean that up to £1 million can be passed on tax-free between generations (HMG, no date).

According to the latest data, only the wealthiest 4 per cent of estates transferred were liable for inheritance tax (Advani et al 2023a). This incidence of IHT shows a dramatic geographical skew. Previous IPPR analysis has shown that abolition would represent a significant and distributional financial benefit to London and the South East relative to other places.

FIGURE 4.7: THE CONCENTRATION OF INHERITANCE TAX PAID IN THE SOUTH REFLECTS THE STRONG CONCENTRATION OF WEALTH AND GENERATIONAL WEALTH TRANSFERS IN THE REGION

Inheritance tax paid per capita (£), two-year average (2019/20–20/21)



Source: Authors' analysis of HMRC 2023b, 2022, 2021; ONS 2024

It follows that raising IHT would raise incomes substantially for better-off regions. For example, we estimate that by increasing IHT from 40 to 50 per cent, 61 per cent of the additional revenue would come from the South of England compared to just 11 per cent from the North of England.

Previous IPPR research has critiqued the design of inheritance tax, particularly how it is levied on the estate of the deceased rather than on recipients. A tax which instead was levied on beneficiaries would better incentivise the spread of wealth between more people as it would reduce the overall tax bill from doing so.

The current system also creates too many opportunities for avoidance for the 'healthy, wealthy and well-advised' (Roberts et al 2018) who can minimise their tax bills, for example through the creation of trusts. (ibid).

Having explored the regional distribution of taxes on wealth and compared it to advantages in the tax system for wealth over work, we find that the tax system contributes to, rather than reduces, regional inequalities in wealth. To break the link between where you live and where you end up requires breaking the advantage of wealth over work that exists in the UK's tax system. We explore what that could look like in the following chapter.

5.
THE INEQUALITY OF WEALTH

SUMMARY

Wealth is unequally distributed across the UK, as are incomes made from wealth. There are tax advantages for incomes from wealth over earnings from work. It follows that tax advantages for incomes from wealth over work also manifest unequally across the UK. This drives our argument that the under taxation of wealth accelerates regional inequalities. This is not only a concern for raising revenue but it also shapes economic and social outcomes, promoting extracting money from existing wealth over creating value from productive enterprise, reinforcing unequal wealth accumulation, and providing financial security to only a few. A fair, progressive tax system could help address this by treating workers fairly, progressive taxation across all incomes, and closing loopholes that minimise liabilities for the wealthiest.

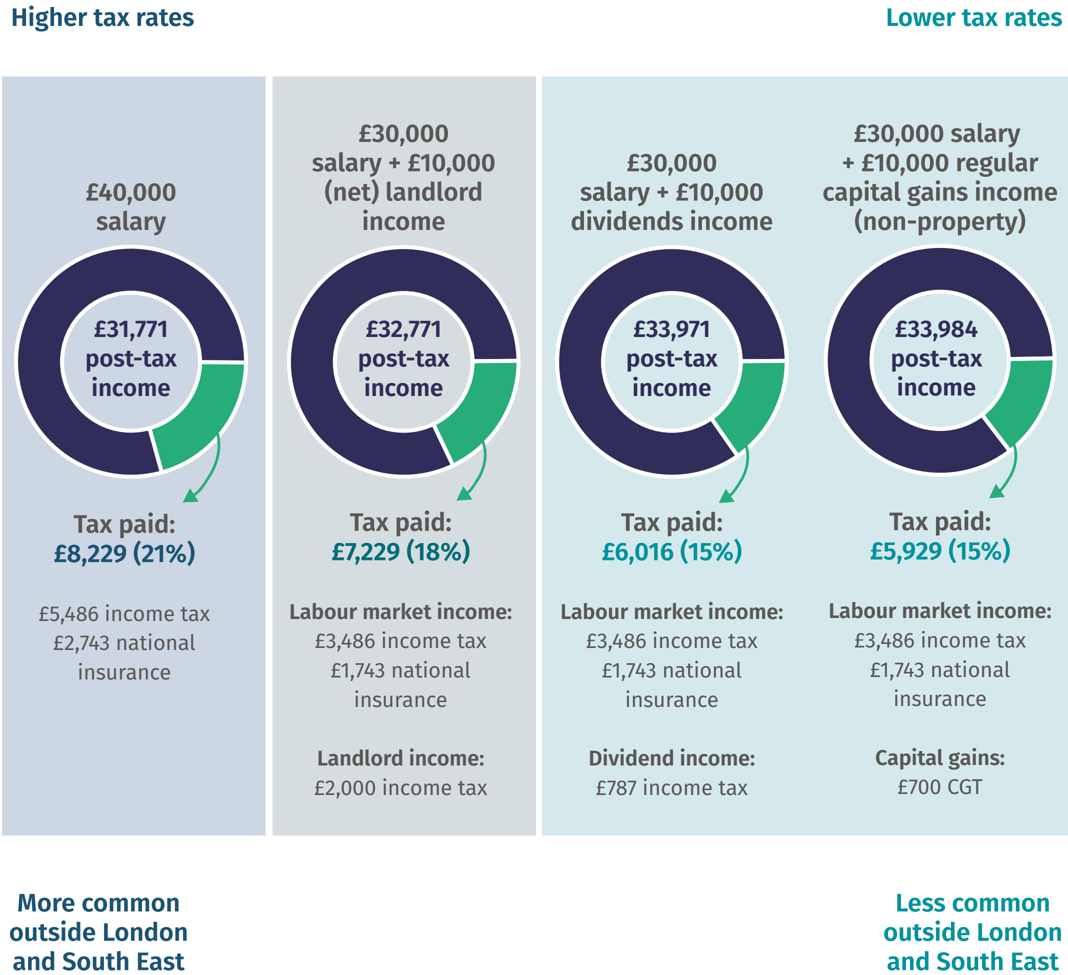
WHAT ARE THE IMPLICATIONS OF THESE FINDINGS FOR FAIRLY REFORMING TAXES?

This chapter brings together the findings of the preceding exploration of the regional inequality of wealth and wealth taxation, from which we conclude that the under taxation of income from wealth accelerates regional inequalities and set out the implications of this and the principles for a policy response.

To summarise this, we present two diagrams below demonstrating the different ways to earn £40,000 and £80,000, and the taxes paid on those incomes across forms of wealth and earnings from work. While these examples are purely illustrative they highlight the impacts of differential tax treatment on different income sources. This is overlaid with summarising the ways in which those different archetypes are concentrated spatially according to our analysis above.

FIGURE 5.1: LOWER TAX RATES ARE FOUND ON THE INCOME PROFILES MORE LIKELY TO BE FOUND IN LONDON AND THE SOUTH EAST

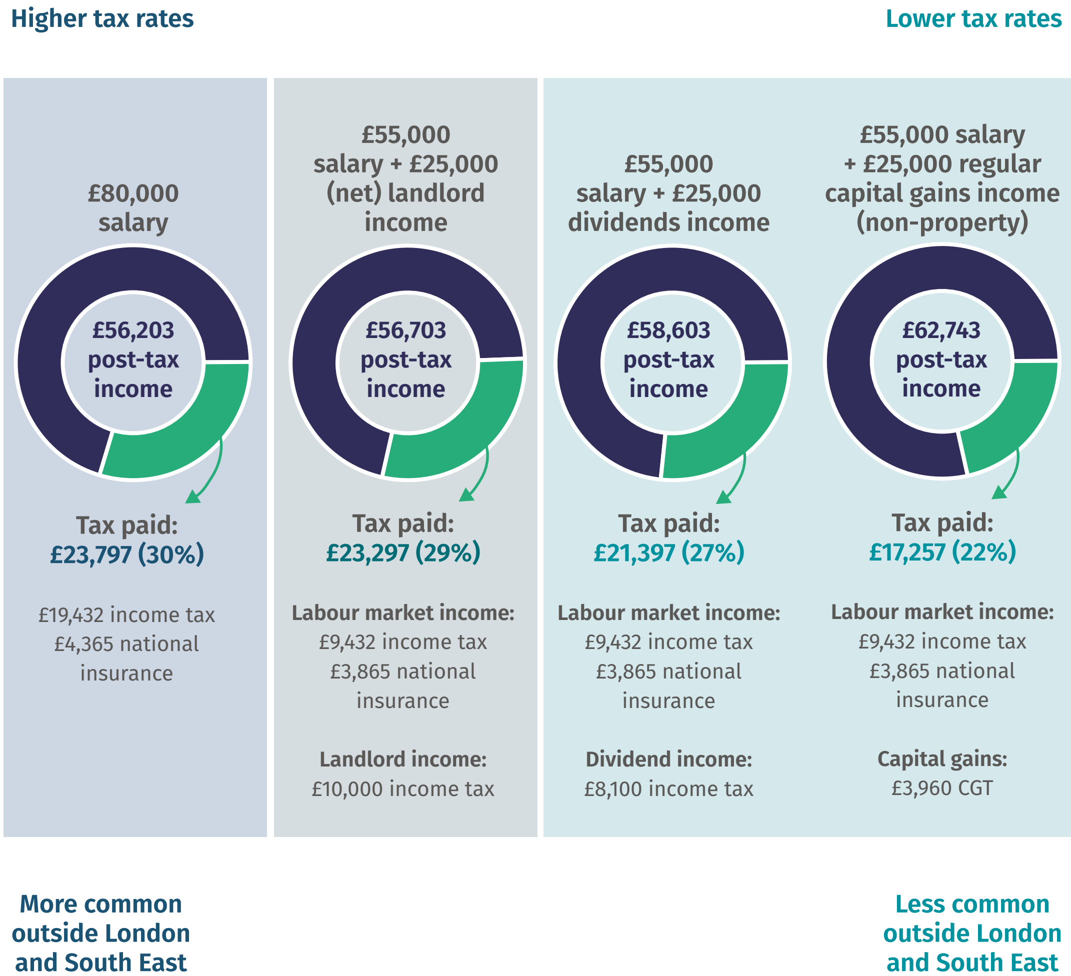
Examples of different tax treatment for £40,000 of income



Source: Authors' analysis

FIGURE 5.2: THIS ALSO HOLDS TRUE AND IS MORE STARK AT HIGHER INCOME LEVELS

Examples of different tax treatment for £80,000 of income



Source: Authors' analysis

Although the incomes analysed above are more 'typical' it is worth noting that for the small numbers of people on very high levels of income, the tax bill savings arising from capital gains income compared to working can be astronomical. For example, an individual making £1 million in salaries would pay over £240,000 more tax than someone who made a £1 million profit from the buying and selling of shares.

WHAT ARE THE IMPLICATIONS OF OUR FINDINGS?

Firstly, the impact of how the tax system is designed extends beyond the collection of revenues alone. Their design profoundly influences both economic behaviour and societal outcomes. There is no neutral design. So, tax policies should be designed to support wider societal objectives, such as achieving equal living standards across regions or incentivising productive activity.

The UK is far from achieving equal living standards across regions, and our finding that **the tax system actively foments, rather than provides a counterbalance to, growing regional inequalities** should deeply concern political actors seeking to close regional divides. While the tax system is limited in its ability to fix these structural problems, a fairer tax system could slow growing divides and belongs in the toolkit for fixing growing wealth inequalities in particular.

That wealth provides avenues for further wealth accumulation is well known, but today's tax system provides greater reward for growing incomes through wealth over earnings from work. As shown in our analysis, labour is taxed highly compared to capital. We therefore conclude that the tax system promotes value extraction over creating value through productive work. Progressive wealth taxation could help mitigate the unequal accumulation of wealth, and its tendency to accelerate. This extractive activity is further likely to support flows into London and the South East from the rest of the country, as discussed in Chapter 2. We consider that the under taxation of wealth is likely to underpin such flows out of regions most in need of rebalancing, suggesting a drag on regional development. Progressive wealth taxation could help mitigate the unequal accumulation of wealth, and its tendency to accelerate.

A related implication is that that under taxing income from wealth means higher taxes on earnings from work to reach the same tax base. Higher taxes on incomes from wealth could theoretically fund a means to reduce taxes on earnings from work. Those striving to build wealth with earnings from work are hampered by a tax system that gives advantages to those who principally derive their incomes from wealth, without effort.

Wealth confers wider societal benefits upon its holders — and a tax system that underpins unequal wealth accumulation across different groups including class and geography is not only a matter of pounds and pence, but of wider inequalities in outcomes and access to fundamental needs, from health to housing.

Wealth confers financial security on its holders in particular. Inequalities in wealth represent inequalities in the ability to access financial security, underpinned by the distributional effect of the tax system. This financial security is not only crucial for households navigating life — from replacing broken fridges to repairing burst pipes — but is also the platform from which people can launch enterprising activity. Low financial security makes the risks higher for entrepreneurship. This is also true for a range of economic activities that enable a resilient, productive economy such as innovation or job switching. There are consequential inequalities, for both households and in people's ability to contribute to national economic success.

The current tax system incentivises people to take advantage of mechanisms that minimise tax liabilities. This not only undermines the fairness of the tax system but adds to the tax advantages that incomes from wealth hold over earnings from work. The ability to purchase high-quality tax advice can increase the ability of the wealthy to access wealth further, reinforcing inequality regardless of effort or merit.

Reducing the tax advantage of incomes from wealth over earnings from work could raise significant revenues. This could create avenues to increase public revenues to be invested in public services or economic development initiatives that could increase wider societal welfare and reduce income and wealth inequalities more broadly.

A FAIRER, MORE PROSPEROUS PATH

Tackling wealth inequality and closing regional divides are undoubtedly significant challenges for the UK in the 21st century. They are deeply systemic concerns calling for a wide range of interventions, from fixing the broken housing market to a green industrial strategy and more widespread forms of wealth creation (Dibb et al 2021, Johns et al 2024).

The design of tax in the UK is part of such a toolkit. If the tax system is currently accelerating regional inequalities then at the very least, we can take our foot off the accelerator, or even try the brakes. To do so, we conclude that there are key principles that ought to be embedded in our tax system, which should:

- Be **fair to workers, and not advantage incomes from wealth** over earnings from work.
- **Encourage productive forms of economic activity**, prioritising wealth creation over wealth extraction, and innovation and investment over asset sweating.
- Be **progressive and redistributive** in general and over the totality of income, whether earnings from work or incomes from wealth, with the ultimate aspiration of using a single tax schedule across all sources of income, as IPPR has previously suggested (Stirling 2018).
- **Contribute to wider societal goals** such as equalising living standards across places.
- Function according to its stated intention, meaning legal loopholes, particularly for those with substantial wealth, to access lower tax rates and reduce obligations should be closed. Technicalities, definitions and so on should not allow negation of the tax system's aims.

Our analysis is primarily focused on incomes from wealth and their role in accelerating regional divergence, and in considering policy principles to respond to this. As we have described, inequality in stocks of wealth is also a problem in and of itself. Such principles could help to slow widening regional divides, but we recognise are unlikely to close them alone. Addressing stocks of wealth and their unequal distribution in the round is also required. As we have highlighted, the UK's only tax that might be considered a tax on the stock of wealth would be a poorly designed and badly functioning one for addressing inequality. In previous work considering how to improve it, IPPR has recommended replacing it with a proportional property tax (Nanda 2021) which would function as a tax on stocks of wealth. This points towards exploring taxing stocks of wealth, and future IPPR research will explore the questions that arise directly from this.

6.
THE FUTURE OF WEALTH

WHAT CAN BE DONE TO FAIRLY REFORM TAX?

Wealth inequalities are widening despite years of cross-party support for regionally rebalancing the UK economy. **These widening wealth inequalities are unjust, bad for growth, and raising barriers to opportunity that ought to be broken down.**

The new government has said its primary mission is to deliver economic growth in all corners of the country, alongside missions for opportunity, energy, policing and health. The new government has inherited a **tax system that is actively constraining ambition to regionally rebalance the UK.** It also inherits an opportunity to build on the momentum of reforms under the last government towards fairer tax, such as reduced Capital Gains Tax allowances, and to genuinely harness the tax system in service of its missions to support the renewal of the UK economy in a regionally rebalanced way.

Inequality in wealth is a problem because it is a driver of broader inequalities in the things that wealth confers: financial security, good health, better education, high quality housing, and the ability to start a business. It limits good growth and promotes rent seeking over productive work to access social mobility. **This is also a spatial problem,** given how extensively wealth and its advantages are concentrated, locking many communities out of wealth and holding us back from fairer, economic growth.

Our economic, political and taxation systems drive the system in this direction. They are currently failing to address outsized gains accruing to some while leaving others locked out of access to wealth and the security it provides. **Growing wealth inequalities are not sustainable.**

The tax system does not just raise revenues for state spending. **Taxes fundamentally shape the country and its economy.** Coherent policymaking should consider tax policy alongside wider societal objectives, which we argue include driving convergent living standards in the UK.

Incomes from wealth are undertaxed. This **under taxation of wealth is linked to spatial inequalities in wealth.** By exploring the regional distribution of where taxes on wealth are paid and comparing this to advantages in the tax system for wealth over work, we conclude that **under taxation of wealth accelerates regional inequalities,** disadvantaging working people.

The forms of income that attract lower tax rates are overwhelmingly concentrated in one corner of the country, while large parts of the country feature much lower shares of wealth stocks and incomes from wealth according to our analysis, suggesting they are much more reliant on earnings from work. **A fairer tax system would at the very least treat earnings from work equally to incomes from wealth, which in turn could slow growing regional wealth inequality** and provide vital revenues for improving public services and investing in regional development.

Notably, our research also highlights the **relatively few people who would pay more by equalising tax rates on income from work and wealth.** For instance, just 394,000 people paid capital gains tax in the latest data, compared to over 32 million people who paid income tax in the latest data. Very few, a vanishing minority in several regions, would face higher tax levels, and most working people would not be affected, depending on the policy choices taken. **A fairer tax system could raise more revenue, while working people would not face higher tax levels.**

Unfairness in our tax system, which advantages income from wealth over income from work, is driving regional inequalities. This is the result of policy choices – and good policy choices and political will can break this link. The tax system is part of our policy toolkit to rebalance our regions. By **reforming the taxation of income from wealth, the tax system can play its part in slowing down regional inequalities**, alongside broader wealth taxes.

To achieve this, the design of tax policy in the UK needs to embed the principles outlined in the previous chapter.

A tax system embedding these principles could complement efforts elsewhere to close regional divides.

IPPR has previously outlined a number of ideas for building a fairer, more effective tax system which aligns both with these principles and the taxes highlighted in this report. We propose that **the new government should consider reforming UK taxes on incomes in line with our principles,** which provides them with the option of **protecting working people's incomes while raising revenues to rebuild public services and boost flagging investment in the UK economy.**

Ideas to embed these principles include reforming how incomes are taxed, how inheritance transfers are taxed, how property is taxed, and how revenues are used.

Taxes on incomes

Combining all forms of income into a single tax schedule, including from capital gains, dividends, and savings in line with how we tax work (Nanda and Parkes 2019) would transform the taxation of income in line with these principles. This could be achieved by the end of this parliament. This implies the merger of income tax and national insurance, which raises policy questions including around state pension entitlement that would need to be resolved. As a step in this direction**, equalising the tax rates for capital gains, dividends and savings incomes with tax rates on earnings from work** would reduce some of the advantages that incomes from wealth have today. In considering the principle of contributing to wider societal goals, how savings are encouraged and treated would need further consideration to ensure goals for savings levels and financial security are met. As a first step, **capital gains tax rates should be equalised with the income tax schedule at the first fiscal event of this parliament.**

Taxes on property

Council tax is out of date, regressive by design, and has regionally unequal impact. A proportional property tax (PPT) would be more progressive and reduce regional inequalities in the existing system (Nanda 2021), replacing council tax as part of a broader review of local taxation and fiscal devolution, embedding fairness, wider societal goals, and clarity on incentives. This transformation would be a significant task, but it could be achieved by the end of this Parliament.

More immediate reforms to council tax could include further increasing council tax premiums on empty and second homes (Murphy and Snelling 2019), and the re-valuation and reforming of council tax bands to reduce inequalities between high and low value properties. As with any change where some pay more than others, re-valuation could be politically challenging, although the arbitrary and regressive nature of the bands based on 34-year-old valuations is increasingly absurd. In correcting this inequality, some places and households would see bills rise while others fall, which could also include poorer households in some areas (Adam et al 2020), demanding some transitionary relief. The next fiscal event is an opportunity to take steps towards a fairer system with a re-valuation and re-banding exercise.

More broadly, taxes on other stocks and forms of wealth should also be considered in the longer term, particularly given that the very wealthiest hold most of their wealth in other forms and so would largely escape the impacts of a PPT.

Taxes on wealth transfers

Wealth transfers like inheritance sustain inequality across the generations, and the gap between those who inherit wealth and those who do not is set to become wider. Taxes on transfers could be more effective and developed in line with the principles set out above. **Abolishing inheritance tax and replacing it with a capital acquisitions tax levied on those receiving transfers above a lifetime threshold and in line with the broader income schedule would help reduce wealth inequality** (Roberts et al 2018). This could be achieved by the end of this parliament, and would bring us closer to how inter-generational transfers are taxed by our nearest neighbours in France and Ireland (Corlett 2018). In the immediate term the government could consider abolishing or capping business or agricultural relief to cut down on opportunities for avoidance (Advani et al 2023b).

Using revenues raised

How revenues raised by any such reforms evidently has a significant impact, including on living standards, inequality and regional rebalancing. To redouble the impact of reforms in slowing regional divergence, **spending can target closing regional divides** or more broadly meeting these principles. For instance, prioritising the use of additional tax revenue raised to reduce regional inequalities could look like enhanced investment in regional wealth creation as previously suggested by IPPR North (Johns et al 2024), capitalising the National Wealth Fund, or building up a citizens' wealth fund and using returns to offer a universal inheritance to more equitably share the gains of investment (Dibb et al 2021).

Using all the tools

Our findings, principles and ideas point towards the role that tax reform could play in regionally rebalancing the country. The new government should consider all the tools available and prioritise fairness and prosperity to do so. Over the course of this Parliament, a fairer tax system that underpins the government's missions and enables better growth in all corners of the country is in reach. Meanwhile the next fiscal event is an opportunity to take the first steps to fair tax, helping to rebuild public services and kickstart the investment needed to grow the UK economy in doing so.

IPPR will continue, in the coming months, to explore how a fair tax system could be designed where workers and regions are treated fairly, promoting growth and prosperity, and breaking down the barriers to opportunity that have plagued the UK for too long.

REFERENCES

Adam S, Hodge L, Phillips D and Xu X (2020) *Revaluation and reform: Bringing council tax into the 21st century,* IFS. https://ifs.org.uk/publications/revaluation-and-reform-bringing-council-tax-england-21st-century

Advani A, Bangham G, and Leslie J (2020) *The UK's wealth distribution and characteristics of high-wealth households,* Resolution Foundation. https://www.resolutionfoundation.org/app/uploads/2020/12/The-UKs-wealth-distribution.pdf

Advani A, Cornish J, Crawford C (2022) *Would additional investment in skills benefit areas of the country which are performing worse economically?,* Skills and Productivity Board. https://assets.publishing.service.gov.uk/media/628e2505d3bf7f1f3c97ddaf/Would_additional_investment_in_skills_benefit_areas_of_the_country_that_are_poorer_performing_economically.pdf

Advani A, Sturrock D (2023a) 'Wealthiest 1% would get half the benefit of scrapping inheritance tax, with an average tax cut of £1 million', press release. https://ifs.org.uk/news/wealthiest-1-would-get-half-benefit-scrapping-inheritance-tax-average-tax-cut-ps1-million

Advani A, Sturrock D (2023b) 'IFS Green Budget Chapter 7 – R275', report chapter. https://ifs.org.uk/sites/default/files/2023-09/Reforming-inheritance-tax-1.pdf

Advani A, Lonsdale A, Summers A (2024) *Who would be affected by Capital Gains Tax reform?,* CAGE. https://warwick.ac.uk/fac/soc/economics/research/centres/cage/manage/publications/bn40.2024.pdf

Alvaredo F, Garbinti B, and Piketty T (2017) *On the share of inheritance in aggregate wealth: Europe and the USA, 1900-2010,* Economica, 84, 239-260. http://piketty.pse.ens.fr/files/AlvaredoGarbintiPiketty2017.pdf

Brett C (2019) *The rentierization of the United Kingdom economy,* Environment and Planning A: Economy and Space, 55(6), 1438-1470. https://doi.org/10.1177/0308518X19873007

Corlett A (2017) *As time goes by: Shifting incomes and inequality between and within generations,* Resolution Foundation Intergenerational Commission. https://www.resolutionfoundation.org/app/uploads/2017/02/IC-intra-gen.pdf

Corlett A (2018) *Passing on: Options for reforming inheritance taxation*, Resolution Foundation Intergenerational Commission. https://www.resolutionfoundation.org/app/uploads/2018/05/IC-inheritance-tax.pdf

Department of Levelling Up, Housing and Communities [DLUHC] (2022) *Levelling up the United Kingdom,* CP 604. https://www.gov.uk/government/publications/levelling-up-the-united-kingdom

Department for Work and Pensions [DWP 2024a], Family Resources Survey, Household dataset. Accessible via DWP Stat-Xplore. https://stat-xplore.dwp.gov.uk/webapi/jsf/login.xhtml

Department for Work and Pensions [DWP 2024b] Family Resources Survey 2022/23, dataset, UK Data Service. https://ukdataservice.ac.uk/

Dibb G, Jung C, Parkes H, and Nanda S (2021) *Prosperity and justice after the pandemic,* IPPR. https://www.ippr.org/articles/prosperity-and-justice-after-the-pandemic

Dibb G and Murphy L (2023) 'Now is the time to confront the UK's investment-phobia', blog, IPPR. https://www.ippr.org/articles/now-is-the-time-to-confront-uk-s-investment-phobia

Fagereng A, Moll B, Holm M B, Navtik G (2023) *Saving Behavior Across the Wealth Distribution: The Importance of Capital Gains*. https://benjaminmoll.com/wp-content/uploads/2019/07/SBWD.pdf

The Finance Act 2015, c3. https://www.legislation.gov.uk/ukpga/2015/11/contents/enacted/data.htm

His Majesty's Government (HMG 2024a) 'Income Tax Rates and Personal Allowances', webpage. https://www.gov.uk/income-tax-rates

His Majesty's Government (HMG 2024b) 'National Insurance rates and categories', webpage. https://www.gov.uk/national-insurance-rates-letters

His Majesty's Government (HMG 2024c) 'Capital Gains Tax: what you pay it on, rates and allowances, webpage. https://www.gov.uk/capital-gains-tax/rates

His Majesty's Government (HMG 2024d) 'Tax on dividends', webpage. https://www.gov.uk/capital-gains-tax/rates

His Majesty's Government (HMG, no date) 'How Inheritance Tax works: thresholds, rules and allowances', webpage. https://www.gov.uk/inheritance-tax

His Majesty's Revenue and Customs (HMRC 2010) 'Budget 2010 policy costings'. https://assets.publishing.service.gov.uk/media/64c229b77f0215000d88d849/Table_5_2023_Regional_and_country_statistics.ods

His Majesty's Revenue and Customs (HMRC 2023a) 'Table 5: Estimated number of taxpayers, amounts of gains and tax liabilities by UK country and region', dataset. https://assets.publishing.service.gov.uk/media/64c229b77f0215000d88d849/Table_5_2023_Regional_and_country_statistics.ods

His Majesty's Revenue and Customs (HMRC, 2023b) 'Table 12.8: Estimated amounts of tax due by geographical region (2020 to 2021), dataset. https://www.gov.uk/government/statistics/table-128-estimated-amounts-of-tax-due-by-geographical-region

His Majesty's Revenue and Customs (HMRC, 2023c) 'Table 7: Estimated number of taxpayer disposals, disposal proceeds and gains by asset type and period of ownership in the tax year 2020 to 2021', dataset. https://assets.publishing.service.gov.uk/media/64c79f5f5c2e6f0013e8d77b/Table_7_2023_Statistics_by_asset_type_in_the_2020_to_2021_tax_year.ods/preview

His Majesty's Revenue and Customs (HMRC, 2023d) 'Table 3: Estimated number of individual taxpayers by size of gain and taxable income', dataset. https://assets.publishing.service.gov.uk/media/64c22c2fc97353000d3e569a/Table_3_2023_Size_of_gain_by_income.ods

His Majesty's Revenue and Customs (HMRC, 2022) 'Table 12.10a: Inheritance Tax: Tax liability by region (2019 to 2020)', dataset. https://assets.publishing.service.gov.uk/media/62d81091e90e071e798d11da/Table_12_10.ods

Institute for Fiscal Studies [IFS] (2011) *Tax by design*. https://ifs.org.uk/books/tax-design

International Monetary Fund [IMF] (nd) 'The IMF and Income Inequality', webpage. https://www.imf.org/en/Topics/Inequality

The IPPR Commission on Economic Justice [IPPR CEJ] (2018) *Prosperity and justice: A plan for the new economy—The final report of the IPPR Commission on Economic Justice,* IPPR. https://www.ippr.org/articles/prosperity-and-justice

Johns M and Hutt H (2023) *State of the North 2023 – Looking out to level up: How the North and the UK measure up,* IPPR North. https://www.ippr.org/articles/looking-out-to-level-up

Johns M, Marshall J, Hebden P, Swift R, and Billingham Z (2024) *State of the North 2024: Charting the course for a decade of renewal,* IPPR North. https://www.ippr.org/articles/state-of-the-north-2024

Kerr S and Vaughan M (2024) *Changing the narrative on wealth inequality,* JRF. https://www.jrf.org.uk/wealth-funding-and-investment-practice/changing-the-narrative-on-wealth-inequality

The Labour Party (2024) *Let's get Britain's future back.* https://labour.org.uk/wp-content/uploads/2024/04/Lets-Get-Britains-Future-Back.pdf

Leaver A (2013) *The metropolitanisation of gains, the nationalisation of losses,* Tax Justice Focus, 8 (2), 6-7, https://www.taxjustice.net/cms/upload/pdf/TJF_8-2_Fin_Curse_Leaver.pdf

McNeil C, Parkes H, Garthwaite K, and Patrick R (2021) *No longer 'managing': The rise of working poverty and fixing Britain's social settlement,* IPPR. https://www.ippr.org/articles/no-longer-managing-the-rise-of-working-poverty-and-fixing-britain-s-broken-social-settlement

Menon A (2021) 'Meritocracy and British politics', blog, UK in a Changing Europe. https://ukandeu.ac.uk/meritocracy-and-british-politics/

Mijs J B and Savage M (2020) *Meritocracy, elitism and inequality,* The Political Quarterly 91: 397-404. https://doi.org/10.1111/1467-923X.12828

Murphy L and Snelling C (2019) *A poor tax: Reforming council tax in London – Final report,* IPPR. https://www.ippr.org/articles/reforming-council-tax-in-london

Nanda S (2021) *Pulling down the ladder: The case for a proportional property tax,* IPPR. https://www.ippr.org/articles/pulling-down-the-ladder

Nanda S and Parkes H (2019) *Just tax: Reforming the taxation of income from wealth and work,* IPPR. https://www.ippr.org/articles/just-tax

National Property Buyers (2024) 'What is Section 24?', webpage. https://www.nationalpropertybuyers.co.uk/blog/landlord-advice/what-is-section-24-landlords-questions-answered-2024-update/

Office for Budget Responsibility [OBR] (2024a) Economic and fiscal outlook, March 2024. https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/

Office for Budget Responsibility [OBR] (2024b) 'Capital Gains Tax', webpage. https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/capital-gains-tax/

Office for National Statistics [ONS] (2022a) Total Wealth: Wealth in Great Britain, dataset. https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/totalwealthwealthingreatbritain

Office for National Statistics [ONS] (2022b) Wealth and Assets Survey Microdata, various waves. Accessible via UK Data Service.

Office for National Statistics [ONS] (2024) 'Estimates of the population for the UK, England, Wales, Scotland and Northern Ireland', dataset. https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland

Resolution Foundation (2024) *Housing market trends,* databank. https://www.resolutionfoundation.org/major-programme/housing-market-trends/

Roberts C and Lawrence M (2017) *Wealth in the twenty-first century: Inequalities and drivers,* IPPR. https://www.ippr.org/articles/wealth-in-the-twenty-first-century

Roberts C, Blakely G, Murphy L (2019) 'A Wealth of difference: reforming the taxation of wealth', IPPR. https://www.ippr.org/articles/a-wealth-of-difference

Satz D and White S (2021) *What is wrong with inequality?* IFS. https://ifs.org.uk/inequality/wp-content/uploads/2021/09/What-is-wrong-with-inequality.pdf

Stirling A (2018) *Tapering over the tax: Reforming the taxation of income in the UK,* IPPR. https://ippr-org.files.svdcdn.com/production/Downloads/cej-tapering-over-the-tax-march2018.pdf

Institute for Public Policy Research

GET IN TOUCH

For more information about the Institute for Public Policy Research, please go to www.ippr.org

You can also e-mail info@ippr.org or find us on X @ippr

Institute for Public Policy Research
Registered Charity no. 800065 (England & Wales),
SC046557 (Scotland), Company no, 2292601 (England & Wales)

The progressive policy think tank