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COMMON WEALTH

BUY BACK BETTER

THE CASE FOR RAISING TAXES ON DIVIDENDS AND BUYBACKS

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ABOUT THIS PAPER

The purpose of this paper is to explore levels of shareholder remuneration during the cost of living crisis and to make the case that these should be taxed more equitably than they are under the current tax regime.

This report is published in collaboration with Common Wealth as part of our programme of work exploring profits and corporate power post-pandemic.

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SUMMARY

Households are experiencing a real-terms income squeeze while some of Britain's largest companies transfer profits to their shareholders at record levels. Cash transfers to shareholders of FTSE companies, in the form of dividends payments and share buybacks, have rebounded rapidly since they slumped during the pandemic. Dividends are the primary mechanism through which shareholders are enriched when the company they invest in makes a profit, while buybacks inflate the value of a company's stock and spread this value over a smaller number of shares. Levels of buybacks are now twice as high as their previous peak in 2018, having rebounded twenty-fold since their lowest point during pandemic. When combined with dividend payments, transfers to shareholders now exceed their previous peak by 30 per cent.[1]

Taxes on shareholder transfers should be raised to ensure that companies are not channelling profits to their shareholders at a time of national economic crisis. In some cases, companies are making extraordinary profits that represent a direct transfer from households and customers. Research by IPPR and Common Wealth found that some companies are reaping the rewards of extreme price increases, while other firms may be using their market power to exacerbate inflation (Hayes and Jung 2022). When these profits are redistributed to a company's investors households may be losing out while shareholders reap the rewards.

The UK government can raise revenues by increasing taxes on dividends and buybacks. This is one mechanism which will allow the government to extend support for households and businesses through the cost of living crisis without resorting to public service cuts. The government should be prioritising progressive revenue-raisers which address growing wealth inequality, rather than turning back to the austerity cuts of the past.

In this paper we find the following.

- **A 1 per cent tax on the share buyback schemes of FTSE-listed companies could raise an additional £225 million in a single year** at current levels of buybacks. In the US, the Biden administration is seeking to rein in rising levels of share buybacks with a 1 per cent tax on stock repurchasing schemes. The tax will raise revenues to reduce the deficit and invest in renewable energy.

- **Introducing an emergency 'windfall' tax on the buybacks of FTSE-listed companies, levied at a higher rate for a defined period of time during the cost of living crisis, could raise £11 billion in a single year** at a rate of 25 per cent based on current trends in buybacks. The government could invest these revenues into support for households and businesses during the cost of living crisis.

- **Targeting a windfall buyback tax on the stock repurchases of Shell and BP alone would raise £4.8 billion in a single year** if both companies pursued buybacks at the

[1] Common Wealth and IPPR analysis of Refinitiv (2022).

same levels seen over the last year. Shell and BP announced or implemented the most buybacks of any FTSE-listed company in 2022 after making record-breaking profits from rising prices in oil and gas.

- **A higher tax would also encourage businesses to find more productive investments of their profits than remunerating shareholders.** It could act as a mechanism to change the behaviour of business, encouraging companies to find more productive investments for their profits than remunerating their shareholders. These investments are likely to have spill-over benefits for innovation, jobs, skills and prices.
- **The government could raise £6 billion a year by bringing taxes on dividends in line with income tax levels.** This would ensure that the Exchequer does not lose out on revenues if companies choose to prioritise dividends over buybacks to enrich their shareholders. It would also close one of the loopholes which allows asset holders to accrue wealth while paying less tax than earners.

1. INTRODUCTION

Households in the UK are experiencing a severe cost of living crisis.

Rising energy and goods prices have driven inflation to its highest levels in 40 years: the consumer price index reached 10.1 per cent in September (ONS 2022b). The average household energy bill jumped to £2,500 in October, an increase of nearly 100 per cent in a single year. Even with the government's 'Energy Price Guarantee' holding down energy prices until next April, high rates of inflation in other goods – such as housing, household services and food and non-alcoholic beverages – continue to impact household budgets (ONS 2022d).

Rising prices are eroding real household incomes. Real total pay has been falling since April, while real regular pay has been decreasing since November 2021 (ONS 2022a). Regular pay fell 2.9 per cent in June to August when adjusted for inflation, the largest slump since comparable records began (ONS 2022c). The hit to real incomes will be worst for poorer households who spend a larger proportion of their total household budget on essentials like gas, electricity, and food, and therefore have limited scope to reduce their spending (Karjalainen and Levell 2022).

At the same time, some of Britain's largest companies are making record profits.

Post-tax profits for Britain's 100 highest-value firms increased sharply between April and June this year. Total net income after tax for FTSE 100 companies reporting in Q2 jumped from £13.8 billion between January and March, the sample's lowest non-pandemic quarterly profits since 2019, to over £47.7 billion in the three months to the end of June.[2]

FTSE 100 firms bucked global trends to outperform the stocks of their global peers in the first half of 2022. The largest companies trading on the London Stock Exchange lost just 4.5 per cent of their trading value while global stocks dropped by 20 per cent, registering their worst first-half performance on record (Hickey 2022).

Some sectors are reaping enormous rewards from rising prices at the expense of households. Energy and commodities companies are seeing their profits increase by billions of pounds following extreme price increases for gas, oil and certain commodities. These increases should be seen as 'windfall profits' because they are driven by extreme and sudden price increases, as we have argued with Common Wealth (Hayes and Jung 2022). Windfall profits represent a direct transfer from customers, via their energy bills and goods purchases, to corporate balance sheets. As a separate phenomenon, the higher profits and profit rates of some energy firms appear to be the result of the UK's concentrated energy production and generation sectors. These increases should be seen

[2] Common Wealth and IPPR analysis of Refinitiv.

as ‘excess profits’ because they would not have been possible without excessive market power.

The UK government has announced some policy measures to redistribute rising profits from corporations to households. The Johnson government introduced an additional 25 per cent tax on the profits of the oil and gas sector in May (HM Treasury 2022a). The tax, which is projected to raise £5 billion, partially funded £15 billion of support for households (HM Treasury 2022b). This was supplemented by the Truss government’s decision to shield consumers from sky-rocketing energy costs until April 2023 by capping unit prices, although energy companies will be reimbursed for the hit to their profits (HM Treasury 2022c).

The Truss government also U-turned on its plans to hand more cash back to companies by cutting taxes on corporate profits and dividend payments. However, dividend payments and share buybacks continue to be taxed at consistently lower rates than income. This means that wealth accrued through the ownership of corporate assets is treated more favourably by our tax system than income earned through wages or salaries.

Meanwhile, corporate payments to shareholders increased to record levels. Analysts predict that cash transfers to the shareholders of the FTSE 100 will reach £134 billion by the end of the year, far surpassing 2018’s peak of £120.1 billion (Mould 2022).

While households suffer a drop in real-terms income, shareholders are reaping the rewards of growing profits at lower tax rates than working households. This imbalance is becoming increasingly untenable. When it became clear that energy companies were making extraordinary profits from the rising price of oil and gas the government stepped in to redistribute some of this value. With shareholder transfers on the rise, the government should apply the same principle to dividends and buybacks.

Raising taxes on shareholder transfers is one mechanism which will allow government to continue supporting households and businesses through the cost of living crisis without returning to the public service cuts of the austerity era. As Chancellor, Jeremy Hunt rolled back the energy price guarantee and asked departments to identify cuts of up to 15 per cent, more than 12 years since austerity measures were first introduced (Aldrick et al 2022). There is a clear need to rebalance the UK’s fiscal position after the financial turmoil of October 2022 but this does not mean that cost of living support should shrink, or that public services should be cut further.

The government can raise revenues by targeting the imbalance between growing shareholder remuneration and falling household income. These measures, if levied as part of a wider package to redistribute growing profits to struggling households and businesses, will help to restore the UK’s fiscal stability. They will also boost investment and growth over a longer period by encouraging companies to reinvest their profits and freeing up money for public investment. It is vital that the government prioritises these progressive revenue-raisers over the spending cuts of the past.

2.
LEVELS OF SHAREHOLDER TRANSFERS ARE INCREASING

Shareholder transfers are the mechanisms through which companies reimburse investors for the capital they provide. In practice, this means passing profits from a company's corporate balance-sheet to its investors. The primary means of passing profits to shareholders are dividend payments and share buyback schemes.

MECHANISMS FOR TRANSFERRING PROFITS TO SHAREHOLDERS

Dividends are paid out to shareholders when the company they invest in makes a profit. The value of transfers made by companies to their shareholders is based on the amount of stock they own. Dividends are usually paid on a regular basis (known as 'regular' dividends), but when a company has excess cash that is not being reinvested its executives may choose to pay out a 'special' dividend.

Analysts forecast that dividend payments made by FTSE 100 companies in 2022 will reach £85 billion, matching 2018's peak of £85.2 billion (Mould 2022).

Share buybacks transfer profits to shareholders by using profits to reacquire shares from investors. This reduces the total number of outstanding shares, spreading the company's value over fewer shares and thereby inflating the value of each shareholder's assets. This enriches shareholders, board members – and executives, whose remuneration is often partially paid in stock options (Lazonick 2014).

Companies also buy back their own stock to offset the diluting effect of issuing new shares, which is considered part of sustainable corporate management. However, this is not the primary function of buying back shares. In the US, a study of 60 Fortune 100 companies in the 10 years following the financial crisis found that only 37 per cent of buybacks worth $1.23 trillion had been used to offset equity dilution (Davis 2019). Corporations ploughed eye-watering amounts from their profits into buybacks over the same period: total spending by all publicly-traded US companies on stock buybacks totalled $6.3 trillion between 2010 and 2019 (Palladino and Lazonick 2021).

In the UK, analysts forecast that share buybacks by FTSE 100 companies will reach record-breaking levels, with £46.9 billion already announced or implemented for this year. This will surpass the previous peak of £34.9 billion, set in 2018 (Mould 2022).

Shareholders prefer cash to be spent on the highest-yielding possibilities. If the opportunities for investment are low-yielding, shareholders prefer for profits to be paid out (Braun 2022). But it is these investments which boost growth, drive innovation and create jobs, even if their yields are less lucrative for shareholders than direct payments.

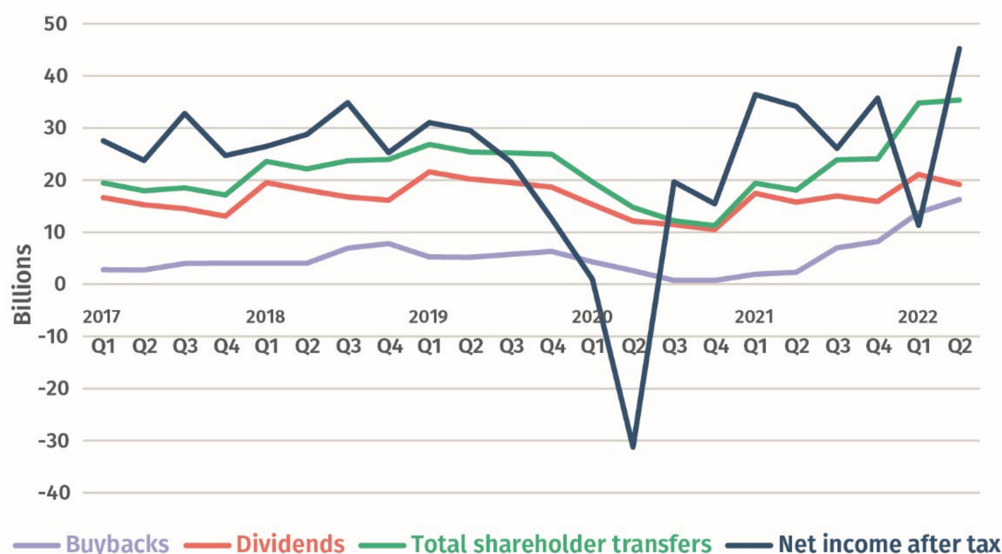
There is therefore a conflict between the priorities of shareholders and the need for investments which are beneficial for the entire economy. This creates a vicious cycle: a low-investment economy in which households are increasingly squeezed makes investments less attractive.

Companies should be encouraged to find more productive investments than ploughing profits into cash transfers for investors. This capital could be retained and reinvested into infrastructure, innovation, workers, and skills, or reducing prices. This would go some way to boosting the UK's private sector investment which is among the lowest in the OECD, the lowest in the G7, and far below the average among developed economies (Dibb 2022).

SHAREHOLDER TRANSFERS ARE REACHING RECORD LEVELS[3]

Cash transfers from Britain's highest-value companies to their shareholders are increasing. Companies listed on the FTSE which have reported for the second quarter of this year transferred **£70.1 billion** to their shareholders through dividends and buybacks. These transfers are overwhelmingly dominated by FTSE 100 companies, which transferred **£64.2 billion** to their shareholders.

Figure 2.1: FTSE profits and shareholder transfers are reaching record levels
Quarterly profits, dividend payments and share buyback schemes among FTSE companies, 2017–22 (£)



Source: Common Wealth/IPPR analysis of Refinitiv (2022)

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[3] The figures in this section represent the profits and shareholder transfers of FTSE companies which have reported for Q2 of this year. This sample is incomplete but is used to illustrate recent trends among FTSE companies. Real levels shareholder transfers in the first half of 2022 will be even higher.

Dividend payments and share buybacks by the FTSE 100 are projected to reach record levels this year: analysts anticipate that transfers made by these companies could total **£134 billion** by the end of the year (Mould 2022).

Figure 2.1 shows how FTSE profits and shareholder transfers have changed since the start of 2017. Profits returned to and exceeded pre-pandemic levels in the first half of 2021 while shareholder transfers surpassed their peak in 2019 earlier this year. Levels of dividend payments and share buybacks both dropped in 2020, with levels of share buyback schemes dropping sharply between 2019 and 2020.

Rapidly accelerating levels of share buybacks are now driving shareholder transfers to record levels, as Common Wealth have shown (Hayes 2022b). Between June and August this year the value of buybacks by FTSE companies in our sample rebounded more than twenty-fold in the two years since their mid-pandemic slump and were more than twice as high as the previous quarterly peak in late 2018.

PROFITS ARE BEING PAID STRAIGHT TO SHAREHOLDERS

While consumers face runaway prices and a historic squeeze in their real incomes, Britain’s biggest firms are transferring profits to their shareholders at record levels. Our analysis shows that there is also an overlap between the sectors of the economy that have seen significant increases in their profits post-pandemic (Hayes and Jung 2022), such as commodity mining and oil and gas, and those who are transferring wealth to their shareholders.

In the case of energy companies, the profits they are making during the cost of living crisis are windfall profits at the expense of households. Shareholder transfers by these firms therefore represent a direct cash transfer from households struggling with bills to their shareholders.

It is difficult to distinguish companies which are buying back their own shares to offset dilution of their stock value from firms which are using share buybacks to enrich their shareholders in the short term. Here, we have looked at 8 firms from a list of the top 10 companies which have invested their profits in buybacks so far in 2022. These increases do not necessarily provide evidence of bad practice, but taken collectively they should be seen as an alarming trend that warrants further investigation and action by the government.

Oil and gas

Oil and gas companies top the list of FTSE 100 buybacks by sector. Shell and BP both top the list of individual FTSE 100 companies which have announced or implemented share buybacks for 2022 with **$22.1 billion** between them, or **£19.9 billion** based on the latest exchange rate.

- **Shell** has announced or implemented **$14.5 billion** in buybacks, or **£13 billion** based on the latest exchange rate. The company announced an $8.5 billion programme for the first half of 2022 in February, followed by a $6 billion programme for their third quarter (Shell 2022a; Shell 2022d). Shell registered profits of $20.6 billion in the first half of this year (Shell 2022b; Shell 2022c).

- **BP** has announced or implemented **$7.6 billion** in buybacks, or **£6.8 billion** based on today's exchange rate. The company implemented $1.6 billion of buybacks for the first quarter of 2022, $2.5 billion for the second quarter and announced a $3.5 billion buyback scheme for the third quarter. (BP 2022a, 2022b). BP recorded heavy losses in the first quarter of 2022 after it exited the Russian market but announced profits of $9.3 billion between April and June (BP 2022b).

Financial

The financial sector is second in the list of FTSE 100 buybacks. The sector has announced or implemented **£11.7 billion** for 2022 so far (Mould 2022).

- **Aviva** has announced or implemented **£3.8 billion** for 2022 (Aviva 2022b). Aviva completed a buyback scheme worth £1 billion between August 2021 and March 2022 (Aviva 2022a). The insurance firm registered a 14 per cent increase in operation profits in the first half of 2022 (Aviva 2022b).

- **Lloyds** has announced or implemented **£2 billion**, after registering an increase in underlying profits in the first half of 2022 (Lloyds 2022).

- **Natwest** has announced or implemented **£2 billion**. The bank registered an increase in profits in the first half of 2022 (Natwest 2022).

- **Barclays** has announced or implemented **£1.5 billion**. The bank pursued £1.2 billion in buybacks in 2021. Barclays recorded a 15 per cent drop in first-quarter profits and a 40 per cent slump in second-quarter profits (Barclays 2022).

Consumer staples

The consumer staples sector is third in the list of FTSE 100 share buybacks by sector. The sector has announced or implemented **£8.3 billion** in share buybacks for 2022 (Mould 2022).

- **Unilever** has announced or implemented **€3 billion** in share buybacks for 2022, having registered a 4.1 per cent increase in underlying operating profits to €5 billion compared to the previous year (Unilever 2022).

- **Diageo** has announced or implement **£1.7 billion** in share buybacks between February and October 2022, having registered an 18.2 per cent increase in operating profits to £4.4 billion in the year to July 2022 (Diageo 2022).

3.
THE CASE FOR RAISING TAXES ON SHAREHOLDER TRANSFERS

Where companies are funnelling profits into shareholder transfers at the expense of more productive investments, it is right for the government to redistribute some of this value back to households or to aim to redirect it into more productive investments. This is especially true in cases where firms are extracting windfall profits from households and passing them onto shareholders.

EXISTING TAXES ON SHAREHOLDER TRANSFERS

Companies and shareholders already pay tax on cash that is transferred from a firm's corporate balance-sheet to its investors. These tax rates are consistently lower than income tax rates. This means that working people, who earn their income through wages and salaries, are taxed at a higher rate than shareholders, who accrue income by owning assets.

Dividends

Shareholders are taxed on the dividend payments they receive. The amount of tax paid by each shareholder depends on the total value of dividends received in a single financial year and their Income Tax band.

Shareholders who pay the basic rate of income tax pay an 8.75 per cent tax on the total value of dividends they receive in a single financial year above £2,000. This is in addition to the £12,570 personal allowance for income tax. If the shareholder does not earn income through wages or salaries, they can be paid £14,570 in dividends before they pay any tax. Dividend payments made to shareholders who pay the higher rate of income tax are taxed at 33.75 per cent, while those who pay the additional rate pay 39.35 per cent (HM Government 2022a).

These taxes are lower than rates of income tax, which currently sit at 20 per cent for the basic rate, 40 per cent for the higher rate and 45 per cent for the additional rate (HM Government 2022b).

There is no direct tax on the dividend payments that companies make to their shareholders, although dividends are only released after the company has paid corporation tax (HM Government 2022c).

Share buybacks

Firms and shareholders both pay tax on stock repurchases.

Companies pay stamp duty on share buybacks (Finance Act 1986). The tax is calculated at 0.5 per cent of the total value paid by the company to reacquire stock, above a threshold of £1,000 (HM Government 2022d). This means that the tax rate on share buybacks is the same as the rate on any stock transfer (HM Government 2022e).

For shareholders who sell their stock, the cash paid to reacquire their shares can be treated as capital rather than income under certain conditions. The payment can then be taxed according to capital gains, at a rate of between 10 and 20 per cent of the profit they make when the company reacquires their stock. These conditions are set out in the Corporation Tax Act of 2010. If the shareholder does not meet these conditions the payment is treated as income and taxed as a dividend.

Put together, this means that share buybacks are taxed at a consistently lower rate than income.

BENEFITS OF INCREASING TAXES ON SHAREHOLDER TRANSFERS

Raising revenues

Taxing firms which are making windfall profits and investing the revenues in targeted household support or welfare payments would redistribute profits more fairly during the cost of living crisis.

In the US, the Inflation Reduction Act included a 1 per cent tax on share buybacks by domestic public companies. The tax is projected to raise $74 billion over 10 years. This means that it raises enough to fund $60 billion in support for domestic clean energy manufacturing and $9 billion for home energy rebate programmes.

An equivalent tax on UK firms could be levied as part of a wider package to support households and businesses through the cost of living crisis. Increasing the share buyback tax to a higher level than the US rate, perhaps in line with the additional 25 per cent windfall tax on energy companies, could fund more significant emergency income or energy support for households during the cost of living crisis. Estimates for the revenues that these taxes might raise are detailed in chapter four.

Boosting investment

Taxing shareholder payments at a higher level would raise more revenue while encouraging companies to reinvest their profits in the productive economy. However, levying a higher tax on buybacks is likely to discourage companies from repurchasing their own stock. It is therefore fair to assume that the revenues raised from a buyback tax will change in line with the level at which they are taxed.

In this way, a higher tax on shareholder payments would encourage companies to retain and reinvest their profits by disincentivising cash transfers to their investors. If the tax causes a drop in share buybacks in favour of investment in productive capital, innovation, workers and skills, or reducing prices, it is likely to stimulate economic activity whilst reducing revenues of the tax itself.

Tackling wealth inequality

Wealth inequality in the UK is exacerbated by the imbalance between the growth of incomes and assets. Dividend payments have been healthy since the 1990s while real wages have been stagnating since the financial crash. Between 2000 and 2019, **dividends grew nearly six times as quickly as total labour compensation** for UK households (Hayes 2022a).

Shareholder transfers overwhelmingly benefit the wealthiest members of society. Recent analysis by Common Wealth demonstrates that the top 1 per cent of households overwhelmingly dominate the direct ownership of UK shares (Hayes 2022b). Prior to the pandemic over one-quarter of the total income of the richest 1 per cent was generated from dividends and partnership income alone (Nanda 2019). Most UK shares are now held by overseas investors, and from 1990 the proportion held by UK pension funds declined by over 90 per cent to less than one in 25 in 2018 (TUC et al 2022).

With households experiencing the steepest drop in their real incomes since comparable records began it is becoming increasingly untenable to tax income from wealth at lower rates than income from labour. Taxing dividends in line with the ordinary income tax schedule would redress this imbalance while raising vital revenues for the government.

Transitioning to net zero

It is especially worrying to see that fossil fuel firms are buying back their own shares at higher levels than any other UK-listed company, rather than investing in the green transition. Major oil and gas companies still only invest a fraction of their profits into renewable energy sources.

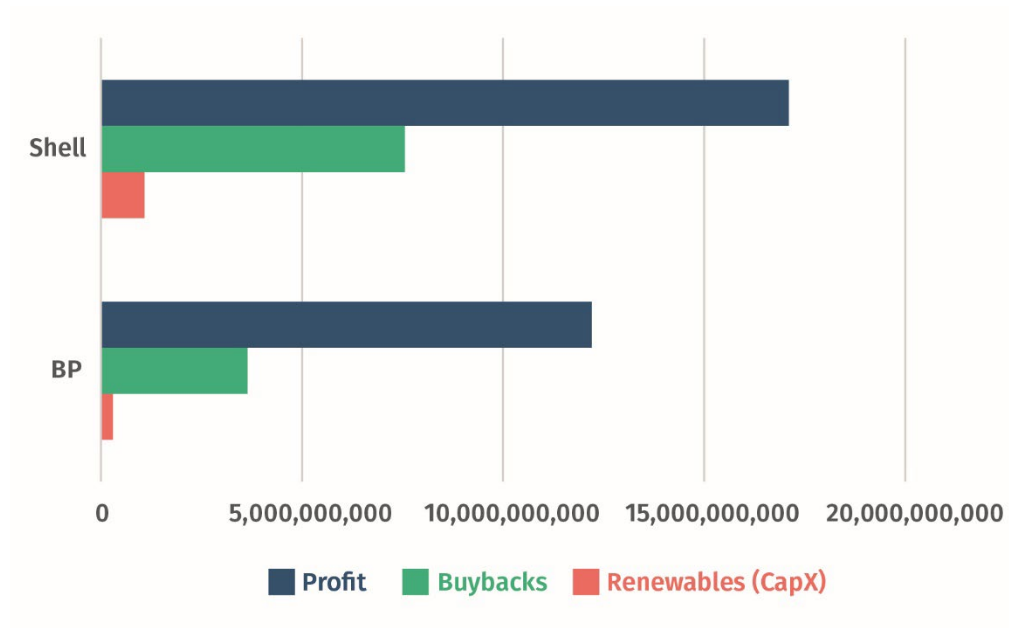
- **BP** invested just 2.5 per cent of its £12.2 billion profits into renewables and 'low carbon' in the first half of this year (Roach 2022). This means that **BP invested ten times as much capital into buying back its own shares** as it is into the net zero transition (BP 2022a).

- **Shell** invested 6.3 per cent of its £17.1 billion profits into low carbon energy in the first half of 2022 (Roach 2022). At the same time, **Shell invested seven times as much of its profits into buyback schemes** (Shell 2022a).

The behaviour of these firms indicates that they are unable to identify more productive investment opportunities than enriching their senior executives, board members and shareholders, even in the context of the UK's commitment to reach net zero by 2050.

Taxing the shareholder transfers of oil and gas companies would encourage these firms to retain and reinvest their capital into the productive economy. Combined with a clear prioritisation of renewables from central government, this could help to direct capital into greening the economy.

Figure 3.1: BP and Shell overwhelmingly prioritised share buyback schemes over green investments in the first half of 2022
Investments by BP and Shell into renewables in the first half of 2022, compared to the size of buyback schemes (£)



Source: Channel 4 analysis for 'Profits' and 'Renewables'; company accounts for 'Buybacks'

Note: Statistics for 'Profit' and 'Renewables (CapX)' refer to figures which are currently available from the first half of 2022. 'Buybacks' refers to schemes that were announced for the first half of 2022. The value of these buybacks has been converted from dollars into pounds using the latest exchange rate.

4.
POLICY OPTIONS

TAXING COMPANIES

Replicate Biden's share buyback tax

The Biden administration introduced a 1 per cent tax on share buybacks. US corporations who trade their stock on American securities markets are now subject to an 'excise tax' on the value of share repurchases when they total more than $1 million in a single year.

The UK could follow suit by increasing the existing tax paid by firms when they repurchase stock. Companies currently pay stamp duty on all buybacks, stipulated by the 1986 Finance Act and the 2006 Companies Act. The government could amend these acts or introduce new legislation to increase the rate of tax to 1 per cent. If levels of share buybacks among FTSE companies remain at levels seen in the year to June 2022, raising the tax by an additional 0.5 per cent could raise **an additional £225 million over a single year**.[4]

To maximise its effectiveness the tax should be announced with immediate effect. Soon after the American excise tax was announced, General Motors announced that it would boost share repurchases to $5 billion, up from $3.3 billion, and Home Depot announced a $15 billion share buyback program (Dore 2022). It is likely that UK-listed firms would also try to avoid the tax by expediting share buyback schemes before it comes into effect.

Introduce an emergency 'windfall' buyback tax at a higher rate

When energy companies made extraordinary profits from rising prices in oil and gas, the government stepped in to redistribute these profits to households through the windfall tax. Rapidly rising levels of shareholder transfers demand a similar intervention. An emergency buyback tax, levied on the stock repurchases of FTSE-listed firms at a higher rate for a defined time period, could be used to redistribute profits from shareholders to households by funding cost of living support measures. This would act as a further

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[4] The estimates cited in this section are calculated by taking the total amount of buybacks pursued by FTSE companies in the year-long period between Q3 2021 and Q2 2022 and multiplying them by the proposed tax rate. This sample is based on companies which reported in the second quarter of 2022 and is therefore incomplete: real levels of buybacks across this period will be higher. These estimates also assume that companies will pursue buyback schemes at the same rate at levels seen over the period between June 2021 and July 2022. The likelihood of this decreases as the rate of tax suggested increases and our model does not factor in these changes.

Taken together, this means that the lower tax rate is likely to result in higher revenue than we project, given that real levels of buybacks are likely higher than our sample. Equally, the higher tax rate is likely to result in less revenue than we project if it deters companies from buying back their own stock. However, as we outline, deterring companies from share buybacks is likely to have spill-over benefits for the wider economy.

incentive for these windfall profits to be reinvested rather than being passed to shareholders.

As an example, a tax of 25 per cent could act as a significant revenue raiser. This would replicate the rate the government levied on energy producers when it became clear that they were making extraordinary profits. An equivalent 'windfall tax' on the share buybacks of FTSE-listed companies could raise **£11 billion in a single year** if these companies pursue share buyback schemes at the same levels seen in the last year.

However, it is unlikely that the rate of share buybacks will remain at current levels if a higher tax is levied. While the lower 1 per cent rate may not be a significant disincentive for firms to channel profits through buybacks, a higher 'emergency' rate likely would be. If firms chose instead to reinvest these profits instead of distributing them to shareholders this would be a positive outcome and is likely to have spill-over benefits for growth, investment, jobs, wages, and prices. However, it would reduce the revenue of a buyback tax. For this reason, these revenue projections are likely an over-estimate.

Focus the share buyback tax on sectors reaping windfall profits

Some sectors are reaping enormous windfall profits at the expense of households and transferring them to shareholders. Shell and BP alone have announced or implemented £19.9 billion in share buybacks for 2022.

An emergency tax on the oil and gas sector, levied at 25 per cent, could raise an additional **£4.8 billion in a single year** from the buybacks of Shell and BP alone, if these levels remain consistent.

These revenues are likely to decrease in line with the level at which the tax is levied. If oil and gas companies are disincentivised from buying back their own shares they will need to find other investments for their profits. The government will have to ensure that these investments fit the need to decarbonise the economy and reach net zero by 2050.

TAXING SHAREHOLDERS

Tax dividends in line with incomes

Taxing shareholder transfers in line with incomes would ensure that companies are not able to avoid a tax on buybacks by diverting profits to shareholders via dividends instead. We estimate that taxing dividends under the ordinary income tax schedule would raise **an additional £6 billion every year.**

These changes would mean dividends would be taxed at levels of 20 per cent for basic rate taxpayers, 40 per cent for higher rate taxpayers, and 45 per cent for additional rate taxpayers. We also propose removing the additional £2,000 allowance in order to bring the taxation of dividends in line with the taxation of income from work. There should, however, be a de minimis allowance, such as £500, to prevent an overly burdensome tax declaration process. This is not included in our modelling, but we would anticipate its impact to be small. These estimates are an updated version of our 2019 projections for taxing dividends in line with incomes (Nanda 2019).

It is likely that taxing share buybacks will result in corporate profits being redirected away from stock repurchase schemes and towards higher dividend pay-outs. Dividend distributions have historically responded positively to increases in the relative taxation of capital gains (Poterba 2004). This means that tax revenues from dividend pay-outs could be even higher if a share buyback tax is implemented alongside this increase.

Tax buybacks in line with incomes

After equalising taxes on dividends and incomes, the government could also bring taxes on share buybacks in line.

The Corporation Tax Act of 2010 currently includes loopholes which allow share buyback transactions to be treated as capital gains under certain conditions. These conditions could be removed to ensure that stock repurchases are always treated as a dividend payment for the shareholder who sells their stock.

This would mean that when a shareholder sells their stock during a repurchasing scheme they are taxed at the same rate as wages or salaries.

5. CONCLUSION

There is an urgent need to tackle the UK's growing economic crisis. Households and businesses are already under sustained pressure from rising prices. Recent turmoil in the financial markets, caused by Truss's mini budget, has strained the macroeconomic environment even further. Nonetheless, the new government must not roll back on existing commitments to shield households and businesses from the cost of living crisis, nor cut public services further.

Taxing transfers from profitable firms to shareholder more fairly can increase tax revenues while boosting wider investment. As part of a broader package to tax wealth and incomes more equitably it will ensure that the government has enough revenues at its disposal to extend cost of living support without returning to austerity. It also has the potential to boost investment in the economy at a time when the UK faces a recessionary period.

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