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Don’t make wealth tax a habit

By Howard Davies

If kite-flying were an Olympic sport, Nick Clegg and his Liberal Democrat cabinet colleagues (no doubt appearing as Team LD) would walk away with all the medals. All governments find it useful, on occasion, to run a policy flag up the pole to see if anyone salutes, but the cardinal principle of taxation is that careless talk costs revenue. So, in normal times, the Treasury jumps from a great height on anyone in government who speculates on tax policy.

But the times are out of joint. So we have the unusual spectacle of the deputy prime minister opening up a radical new area of debate, proposing a wealth tax, on the unusual argument that it will make those who pay it think better of themselves: “so they feel they are making a contribution to the national effort”. I fear that appeal may fall on deaf hearts. Nonetheless, at a time when further welfare cuts are in prospect and conventional approaches to cutting the deficit are running out of steam, there is a case for revisiting the arguments for higher taxes on the rich, especially as the distribution of wealth has recently become more unequal.

There are precedents for a one-off levy. Perhaps Mr Clegg has spent his Spanish holiday looking back at Hansard, the parliamentary record, in the last Olympic year. In April 1948, Stafford Cripps, the then chancellor, argued that “those who possess large capital assets should make some contribution to help the country in this emergency”. His levy was estimated to raise £50m. In 1968, Roy Jenkins, Harold Wilson’s chancellor, repeated the trick with a special charge on investment income. The Treasury can always pull off limited tricks of this kind, though it is better if they are not trailed in the press six months beforehand.

More comprehensive wealth taxes, with a significant yield, have proved far harder nuts to crack. When he became chancellor in 1974, Labour’s Denis Healey published a green paper that canvassed the options. The exercise was not a success. In his memoirs Mr Healey regretted the poorly thought through idea and lamented that “in five years I found it impossible to draft one [a wealth tax] which would yield enough revenue to be worth the administrative cost and the political hassle”.

Elsewhere in Europe, too, the recent trend has been to move away from wealth taxes. Several countries, most recently Sweden, have abandoned them, usually on grounds of excessive cost and complexity, which the yield could not justify. (The argument we have heard loudest here, that entrepreneurs would up sticks and leave for Dubai, has rarely been thought very serious in other places.)

Some countries do still include wealth taxes in their fiscal armoury, notably France, and there is little likelihood of François Hollande repealing that part of the tax code. But the French tax is levied mainly on real estate where the owner is a non-resident and is charged on the net value, after deducting debt. So the yield is not very large.

Wealth taxes which go far beyond property are much more complex. There are valuation issues: is art to be revalued annually? (The French explicitly exclude art as a result, which may in turn encourage unproductive investment.) The identity of the taxable unit is complex, as is the coverage of trusts. There are potential solutions to these problems, but they are time-consuming and expensive. The idea of a windfall from this source is unrealistic.

These administrative problems have not got any easier since Mr Healey's time. But are the politics different? Does the seriousness of our financial position mean that people will be more willing to cough up? It seems unlikely. Mr Healey was operating in even worse conditions, against a background of near-bankruptcy. When the International Monetary Fund turned up in 1976 we were the Greeks, or perhaps the Spaniards, of Europe. The Italians talked then of *Il Sorpasso* (the Surpassing), as their output per head raced past ours.

So this kite does not look destined for a long flight. But there are others which could be more viable. The mansion tax remains a realistic option, as does a land value tax, which could be presented as a form of wealth tax, yet is far easier to collect and has fewer economic disadvantages. Indeed it should promote more active utilisation of land, which we sorely need. If Mr Clegg's true game is to put these more focused imposts back on the table, his unusual speculation may turn out to have some virtue.

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