Tax wealth to help the young:

The intergenerational fairness case for a wealth tax

Alec Haglund, Intergenerational Foundation

The Intergenerational Foundation (www.if.org.uk) is an independent, non-party-political charity that exists to protect the rights of younger and future generations in British policy-making. While increasing longevity is to be welcomed, our changing national demographic and expectations of entitlement are placing increasingly heavy burdens on younger and future generations. From housing, health and education, to employment, taxation, pensions, voting, spending and environmental degradation, younger generations are under increasing pressure to maintain the intergenerational compact while losing out disproportionately to older, wealthier cohorts. IF questions this status quo, calling instead for sustainable long-term policies that are fair to all – the old, the young, and those to come.

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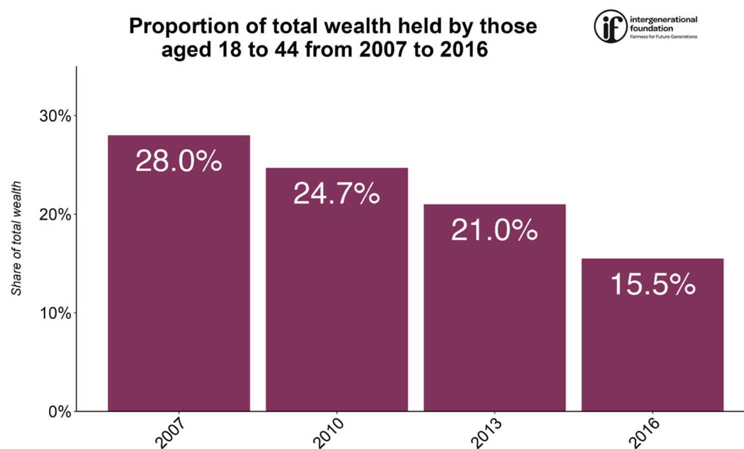
Executive summary

- Aggregate or total UK wealth is now seven times national income and running at around £15 trillion

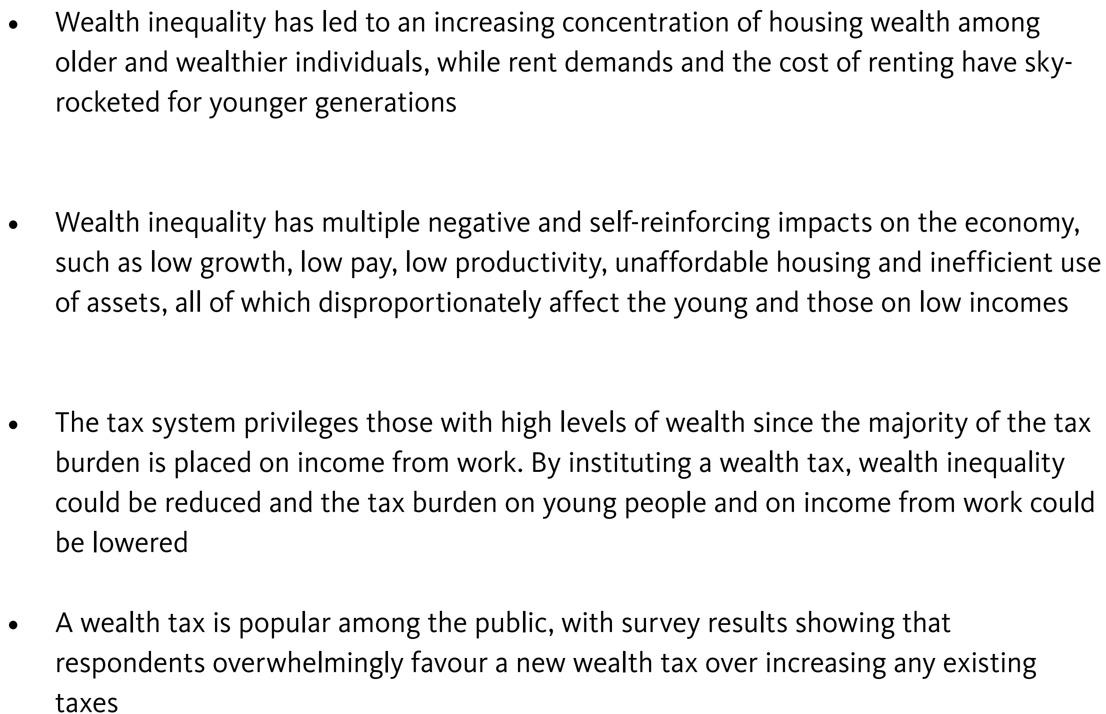
- While growth in total household wealth has surged, wealth inequality has risen rapidly over the past four decades, especially between old and young

- The median wealth of those aged 65 and over has increased three times as much as the median wealth for 25—44 year-olds between 2010 and 2020, showing increasing disparities in wealth between generations

- The share of total wealth held by people aged 65 years or older increased from 32.5% in 2007 to 45% by 2016. Over the same time period, the share of wealth held by people aged 18—44 fell from 28% to 15.5%



- Despite its rapid growth, wealth is hardly taxed at all in the UK and income from wealth is taxed at much lower levels than income from work. This leads to a situation of continuously worsening wealth inequality between rich and poor and old and young



- Wealth inequality has led to an increasing concentration of housing wealth among older and wealthier individuals, while rent demands and the cost of renting have sky-rocketed for younger generations

- Wealth inequality has multiple negative and self-reinforcing impacts on the economy, such as low growth, low pay, low productivity, unaffordable housing and inefficient use of assets, all of which disproportionately affect the young and those on low incomes

- The tax system privileges those with high levels of wealth since the majority of the tax burden is placed on income from work. By instituting a wealth tax, wealth inequality could be reduced and the tax burden on young people and on income from work could be lowered

- A wealth tax is popular among the public, with survey results showing that respondents overwhelmingly favour a new wealth tax over increasing any existing taxes

- A progressive annual wealth tax that taxes wealth over £2 million at 0.8%, over £5 million at 1% and over £10 million at 1.2% would raise £18—£23 billion annually. Alternatively, a wealth tax that taxes wealth over £5 million at 1% and over £10 million at 2% would only impact 83,000 individuals yet raise £19—£24 billion annually

- Instituting a wealth tax would allow policymakers to help young people by lowering income tax rates and raising the personal tax-free allowance on income tax to at least £13,800, with money to spare for HM Treasury

- The tax system should not unfairly burden young people when dealing with the fiscal pressures of the present or the future, such as the costs associated with an ageing society and tackling climate change

- A wealth tax would address intergenerational unfairness within the tax system, improve the health of the economy and reduce wealth inequality

1. Introduction

The UK is an unequal country in terms of the distribution of wealth. As well as driving class divides, the unequal distribution of wealth today is increasingly visible in its generational divides. The wealth gap between the old and young and rich and poor has widened further since the beginning of the COVID-19 pandemic. This raises the question: is it time for a wealth tax in the UK?

Wealth taxes can be used as a policy tool to tackle increasing levels of wealth inequality. They can also raise substantial revenue in an intergenerationally fair way in order to fund the costs associated with: an ageing society; climate change; stretched public services; and public finances post-pandemic.

The tax system can be designed to be more intergenerationally equitable while simultaneously addressing and reducing overall wealth inequality. This paper acknowledges the important work undertaken to date on the merits and the difficulties associated with introducing a wealth tax and adds an intergenerational fairness dimension.

Fair tax design is important beyond the question of merely raising revenue since the tax system serves as the framework within which the wider economy operates. It incentivises some behaviour while disincentivising other behaviours. It can reward one form of activity and penalise other forms. The impacts of tax design tend to be long-lasting as decisions taken in the present impact the political economy for generations to come. As well as raising revenue, a wealth tax can improve both intergenerational and intra-generational fairness in society by shifting part of the tax burden away from work and towards wealth. As this report makes plain, instituting a wealth tax can be fiscally neutral while improving intergenerational fairness if the revenue raised is used to lessen the taxation burden on income from work, on which the majority of young people and low- and middle-income workers solely rely.

A well-designed wealth tax would have positive impacts on: housing affordability; financial stability; economic productivity; and economic growth, while reducing wealth and income inequalities between and within generations. Reducing wealth inequality is not just a matter of fairness or morality, but is important because the consequences of an economy characterised by increasing wealth inequality are devastating for young people and future generations. This paper explains why introducing a wealth tax in the UK would improve the health of the economy, slow down runaway inequality, and contribute towards building a sustainable and fair society for present and future generations.

2. Why a wealth tax?

Wealth taxation is not new. It has been introduced in various countries in a variety of ways. Wealth taxes differ from taxes on income from wealth (such as capital gains taxes) as wealth taxes target net wealth rather than the income generated from wealth. Like other tax policies, how this is defined may vary, but it can usually be understood as the value of all assets minus any debts, although preferential treatment, exemptions or certain deductions may apply.[1] A wealth tax is therefore a broad-based tax on all wealth, unlike taxes on specific forms of wealth, such as property taxes. Although policymakers may opt to include some exemptions or reliefs to the definition of what types of wealth ought to be liable to pay the tax, either due to pressure from interest groups or because of secondary goals such as incentivising private pension saving, for the purpose of this report it is assumed that all forms of wealth would be included in the tax base, meaning financial wealth, pension wealth, housing wealth, physical wealth and business wealth.

2.1. Background

The Intergenerational Foundation (IF) previously published a report investigating the intergenerational injustice of taxing income from wealth at lower rates than income from work. It concluded that the taxation of all forms of income should be equalised.[2] This paper builds on previous research and argues for a wealth tax from an intergenerational fairness perspective, based on the need for a fairer tax system for young people.

How the tax burden is distributed is increasingly an intergenerational fairness question. Present and future governments are likely to recognise the need for increased public investment to tackle issues such as the housing crisis, underfunded public services, climate change and an ageing society. It is vital that any tax changes to address these issues are fairly and progressively distributed both within and across generations. Therefore, an analysis of the role that wealth taxes could play in a reformed and intergenerationally fair tax system is required.

Policy debates on the merits of wealth taxes in the UK are not entirely new. Almost half a century ago, the Labour Party won an election promising to introduce a wealth tax once in power but ended up leaving office without having implemented it.

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[1] Scheuer, S., Slemrod, J. (2021) 'Taxing our Wealth'. Journal of Economic Perspectives. 35(1), pp. 207-230
[2] Haglund, A. (2023) Play Fair: Equalising the taxation of earned and unearned income. London: The Intergenerational Foundation: www.if.org.uk/research-posts/play-fair-equalising-the-taxation-of-earned-and-unearned-income

While powerful interest groups opposed the implementation of a wealth tax, researchers have argued that the primary reason the government of the day failed to institute a wealth tax was due to inadequate framing of the argument, thereby losing public buy-in and support needed to push such a transformative policy through the legislative process.[3]

A lot has changed since wealth taxes were last on the UK policy agenda. Capital has become more mobile, overcoming obstacles of space and time, but technological abilities to administer a wealth tax have also increased significantly while legal requirements for reporting offshore wealth have reduced the opacity of wealth. Since the 1980s, wealth inequality has grown considerably as the taxation of unearned income has not kept up with the overall increase in unearned income as a proportion of total income.[4] If the period between the end of the Second World War and the 1980s was characterised by rising real wages, falling wealth and income inequality, and consistent economic growth, the following decades, up until the present, can be defined by a break in those patterns. Although income inequality has remained relatively stable, this has been overshadowed by increasing wealth inequality, falling or stagnating real wages, and weak productivity and growth.

The current economic outlook for younger and future generations is bleak. For most young people the dream of becoming a homeowner is likely to remain a pipe dream. Property prices have increased far beyond the abilities of most young people to be able to save towards a deposit, even for those on decent salaries. Simultaneously, the stock of social and council housing that previous generations were able to live in while saving up for a deposit has continued to decline, leaving young people to struggle in one of the most unaffordable rental markets in Europe. Young people in work are burdened with higher levels of taxation than those who are fortunate enough to be able to generate an income from assets. The pressure to tax young people's incomes will only increase as the nation confronts the combined fiscal pressures of an ageing society and its associated health, social care and pension costs. In the midst of a cost-of-living crisis, falling real wages, student loan debt, and public deficits, young people are also well aware of the need to transform our economy to combat ecological breakdown. The situation calls for radical changes, and tax reform should be at the heart of that project.

Wealth, inequalities of wealth, and the taxation of wealth, all play a key role in the issues outlined but also serve as an opportunity for reform to create an economy that is intergenerationally fair. High levels of wealth inequality lead to unproductive and unstable economies where property and other asset prices continuously outpace the growth of real pay, benefiting the asset-owners while the asset-less fall further behind.

[3] Glennerster, H. (2012) 'Why was a wealth tax for the UK abandoned? Lessons for the policy process and tackling wealth inequality'. Journal of Social Policy, 41(2), pp. 233-249

[4] Haglund, A. (2023) Play Fair: Equalising the taxation of earned and unearned income. London: The Intergenerational Foundation: www.if.org.uk/research-posts/play-fair-equalising-the-taxation-of-earned-and-unearned-income

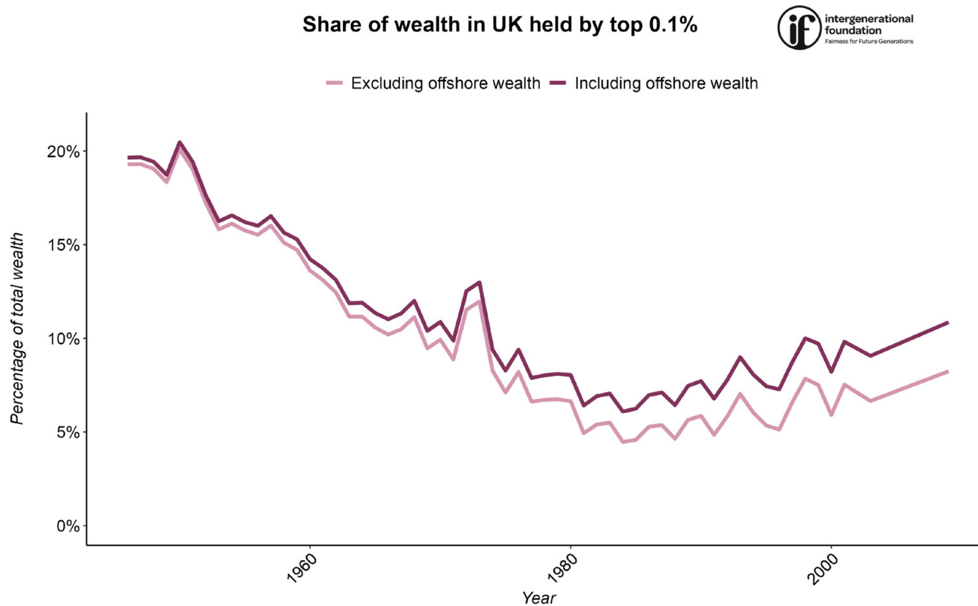
Inequality comes with an economic cost: in comparison to other developed OECD nations, the Equality Trust calculated that the greater than average inequality in the UK costs £106.2 billion annually, primarily due to increased physical and mental health costs associated with high inequality.[5]

The taxation of wealth can be used to: relieve the tax burden on income earned through work; contribute to funding solutions to the housing and climate crisis; encourage the productive use of assets; stimulate growth; reduce inequality; and discourage under-occupation in housing. How we deal with wealth inequalities today will have a lasting impact on the economy that younger and future generations will inherit. Policymakers today have a duty to fully consider how to improve the tax system, and to assess whether wealth taxes should form part of a long-overdue reform to make the tax system more intergenerationally fair.

2.2. A new gilded age?

Questions over the merits of wealth taxes have become more pertinent as wealth inequality has continued to increase, both nationally and globally. Although income inequality has remained relatively stable, the wealthiest in society have been able to capture an increasing part of newly created wealth each year, leading to a very uneven distribution of wealth. Even if UK wealth inequality today is far from the levels witnessed in the inter-war period, the proportion of wealth held by those at the top has been steadily increasing, as shown in Figure 1.

Figure 1



Source: IF analysis of data from Zucman, Alstadsaeter, Johannesen NBER Working Paper 23805 (2017).
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[5] **The Equality Trust (2023) Cost of Inequality 2023**

Figure 1 uses data from research undertaken by Alstadsaeter, Johannesen and Zucman, and shows that the concentration of wealth in the UK has been rising since the 1980s.[6] Since then, the percentage of wealth held by the top 0.1% has risen to approximately 11% in 2009. Considering just the amount of wealth held by UK residents in the UK alone obscures significant increases in wealth inequality. Offshore wealth of those at the top of the wealth distribution has increased significantly since the 1980s, as can be seen in Figure 1. The top 0.1% only held 8.2% of total wealth in 2009 when offshore wealth was excluded, but the real proportion of wealth held by the top 0.1% was 10.9% of total wealth when offshore wealth was accounted for. If we focus on an even wealthier minority, the top 0.01%, then the proportion of wealth that is held offshore is even more significant at 30—40% of their total wealth.[7] The historical pattern revealed in Figure 1 is clear: wealth is becoming increasingly concentrated at the top, and the wealthy store much of their wealth offshore.

The wealthiest in society have been able to increase their share of total wealth due to a variety of economic and political circumstances favouring wealth accumulation. Wealth inequality is likely to increase whenever returns on capital are higher than that of national economic growth since this favours the already wealthy asset–owners over those who rely on income earned through work.[8] Weak economic growth but high returns on capital has characterised much of the past two decades. Combined with the reduction of taxes on unearned income and low collective bargaining power, those with wealth have been able to accumulate more wealth while leaving the asset-less behind.

The government's primary tool for raising revenue and dealing with inequality has historically been through income taxation. For today's generations wealth inequality has become a much larger problem than income inequality since the growth in wealth has been anything but equally shared. This implies that present and future governments cannot solely rely on income taxation in order to raise revenue and reduce inequality. The wealthy have grown wealthier, while the vast majority have seen their wealth stagnate or even decrease, that is if they have any wealth to store. As previous IF research has shown, an increasing proportion of young people have zero property wealth and many have negative financial wealth, while older generations have enjoyed increasing housing and pension wealth.[9]

[6] Alstadsaeter, A., Johannesen, N., Zucman, G. (2017) Who owns the wealth in tax havens? Macro evidence and implications for global inequality. NBER Working Paper 23805. Cambridge, MA: National Bureau of Economic Research
[7] Ibid.
[8] Piketty, T. (2014) Capital in The Twenty-First Century. Cambridge, MA: Harvard University Press
[9] Haglund, A. (2022) The Savings Squeeze: Young people locked out from the benefits of saving. London: The Intergenerational Foundation: www.if.org.uk/research-posts/the-savings-squeeze-young-people-locked-out-from-the-benefits-of-saving

The pandemic, high inflation and the cost-of-living crisis has exacerbated both intra-generational and intergenerational wealth inequality. Before the pandemic, the wealthiest 1% in the UK held approximately 23% of total wealth.[10] The monetary policies during COVID-19 led to a further boost in asset prices, and the very wealthiest increased their wealth further. In fact, wealth in the UK grew by approximately £890 billion during the pandemic, largely due to the inflation of asset prices.[11] On a global scale, the wealthiest 1% of the world captured approximately two-thirds of the £35 trillion in wealth created since 2020.[12] Although high interest rates are likely to have eroded some of the wealth accumulated during the pandemic, the trajectory of unequal wealth accumulation is clear.

At the same time, the young and low- and middle-income workers have suffered from a housing crisis, cost-of-living crisis, and falling real wages, meaning that disparities in wealth have continued to grow. High inflation has been the primary driver of the cost-of-living crisis, particularly for young people and those on low-incomes, since the prices of essentials such as rent, the weekly shop, and energy bills have increased much faster than average income. Inflation has therefore hit young people particularly hard, as young people already had to use a larger proportion of their expenditure on essentials than any other age group before the pandemic.[13]

Instead of being solely global or structural in origin, inflation can occur when large firms choose to increase the prices of goods and services, resulting in economy-wide pressures to hike prices, which in turn leads to expanding profit margins across the economy.[14] This course of action benefits asset-owners at the expense of the young and low- and middle-income workers who do not own assets but must spend the vast majority of their income on essentials. Evidence shows that approximately 59% of recent UK inflation has been driven by increased profit-margins, with companies passing on price rises at a much higher extent than normal.[15] When large corporations see their profit margins increase, asset-owners benefit financially by accumulating more wealth through dividends and rising asset-prices. Since real wages have declined during the same period in which the prices of essentials and rents have risen and asset-prices and profit margins have increased, a large shift in wealth has taken place from the young and those who earn their income from work to those whose income and wealth is tied to asset ownership. The result is that the UK is increasingly becoming a nation divided by the wealthy and the wealthless.

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[10] Advani, A., Bangham, G., Leslie, J. (2020) The UK's wealth distribution and characteristics of high-wealth households. Wealth Tax Commission

[11] Leslie, J., Shah, K. (2021) (Wealth) gap year: The impact of the coronavirus crisis on UK household wealth. London: Resolution Foundation

[12] Oxfam (2023) Survival of the richest: How we must tax the super-rich now to fight inequality

[13] Simpson, L., Bui, M. (2021) Left behind: A decade of intergenerational unfairness. London: The Intergenerational Foundation: www.if.org.uk/research-posts/left-behind-a-decade-of-decline

[14] Weber, I., Wasner, E. (2023) Seller's Inflation, Profits and Conflict: Why Can Large Firms Hike Prices in an Emergency? Economics Department Working Paper Series 2023-2. University of Massachusetts Amherst

[15] Unite (2022) Unite Investigates: Corporate profiteering and the cost of living crisis

2.3. The economic merits of a wealth tax

Proponents of a wealth tax may point to its potential to tackle various fiscal and economic issues simultaneously while only impacting a small minority of the very wealthiest in society. A well-designed wealth tax has the ability to raise substantial revenue in a progressive way while reducing inequalities in society and improving prospects for increased growth, productivity, and better use of assets.

First, taxing wealth can incentivise productivity and boost economic growth. The taxation of wealth slows down the economy less than taxing income, as it does not act as a disincentive to work, and those who receive their income through work have a higher propensity to spend than those with high levels of wealth. Taxing wealth incentivises economic productivity as assets which are not productively used would nonetheless be part of the wealth tax base, whether they generate an income or not. This would encourage more efficient use of land and the housing stock as well as encourage investments into productive and innovative endeavours. A wealth tax would also contribute to solving the housing crisis by disincentivising the under-occupation of larger properties.[16]

Taxing wealth can also be seen as fair and economically sensible policy-making particularly in instances where growth in wealth has primarily been driven by economic rent-seeking or rises in land values rather than through innovation, industry or production. In the UK, a large part of the growth in wealth over recent decades has been due to rises in land values.[17] If increases in wealth are not combined with increased productivity or industrial output, an economic model develops in which wealth accumulation is inextricably tied to financialisation. This is exemplified by the increased financialisation of the housing market since the 1980s which has led to an increasingly intergenerationally unfair society of housing haves and have nots and contributed to an economic model of low productivity, low growth, and speculation.

Second, unlike taxes on income, wealth taxes are much better at raising revenue from the very wealthiest in society and better suited for reducing inequality. The wealthy are able to structure their wealth transfers or incomes to minimise or completely avoid any tax liability on income, but taxation on ownership of wealth is much more difficult for the wealthy to avoid.[18] For example, the wealthiest in society are often able to borrow against their assets to fund spending and tax is not levied on borrowing.

[16] Meade, J. E. (1978) The Structure and Reform of Direct Taxation. Report for a Committee chaired by Meade, J. E. London: Institute for Fiscal Studies
[17] Ryan-Collins, J., Lloyd, T., Macfarlane, R. (2022) Rethinking the Economics of Land and Housing. New Economics Foundation. London: Zed Books
[18] Advani, A., Chamberlain, E., Summers, A. (2020) A Wealth Tax for the UK. Final Report for the Wealth Tax Commission

Third, wealth has grown considerably in recent years. In 1995, aggregate (total) wealth was approximately 3.7 times larger than national income. Today, it has risen to almost seven times national income, running at £15.1 trillion.[19] However, the current UK tax system places a disproportionate emphasis on taxing income from work instead of taxing wealth or income from wealth, despite the rapid growth in aggregate wealth. Since very few young people have substantial wealth, or income from wealth, it is mainly older and wealthier people who benefit from the status quo, with earned income taxed 2—4 times more heavily than unearned income.[20] Wealth itself is hardly taxed at all, with the only exception being inheritance tax and taxes on property. Council Tax is one such example, but it is generally considered regressive, out of date, and often in practice paid by largely younger renters rather than largely older owners. The substantial growth in aggregate wealth implies that even a modest wealth tax would raise substantial revenue, which current or future governments are likely to require to tackle the overlapping problems of climate change, housing affordability, and an ageing society.

Since wealth taxes can reduce wealth inequality, improve the prospective for growth, discourage rent-seeking behaviour, improve efficient use of assets and resources while raising tax revenue, the merits of a wealth tax are highly topical for the current economic landscape of the UK.

2.4. Historical examples of wealth taxes

Current and historical wealth taxes have had mixed degrees of success. Modest wealth taxes have been commonplace, particularly in northern European countries, but most abandoned wealth taxes in the 1990s and early 2000s. Spain, Switzerland and the Netherlands are the only current European countries to levy an annual wealth tax.[21] The decline in the number of OECD countries imposing a wealth tax is less due to the inability to raise revenue or decrease inequality through a wealth tax and more due to the design issues of previous wealth taxes which led to high administrative costs, thereby reducing the efficiency of the tax.[22] Avoidance, evasion and lobbying for exemptions have all been common grievances with wealth taxes in the past.[23] This situation largely developed due to the fact that previous wealth taxes had low thresholds and were rife with exemptions and reliefs, making it possible for the wealthy, but not the middle-classes, to avoid the tax. The design issues, combined with pressure from interest groups, often made it easier for governments to completely remove the tax instead of reforming and improving it.

[19] Advani, A., Bangham, G., Leslie, J. (2020) The UK's wealth distribution and characteristics of high-wealth households. Wealth Tax Commission
[20] Haglund, A. (2023) Play Fair: Equalising the taxation of earned and unearned income. London: The Intergenerational Foundation: www.if.org.uk/research-posts/play-fair-equalising-the-taxation-of-earned-and-unearned-income
[21] OECD (2018) The Role and Design of Net Wealth Taxes in the OECD
[22] Perret, S. (2020) Why did other wealth taxes fail and is this time different? Wealth Tax Commission
[23] Ibid.

It is also worth noting that the withdrawal of wealth taxes occurred alongside a more general move to reduce the taxation of the wealthy through a process that began in the late 1970s, suggesting that changing ideological beliefs also played a role in their abolition.[24]

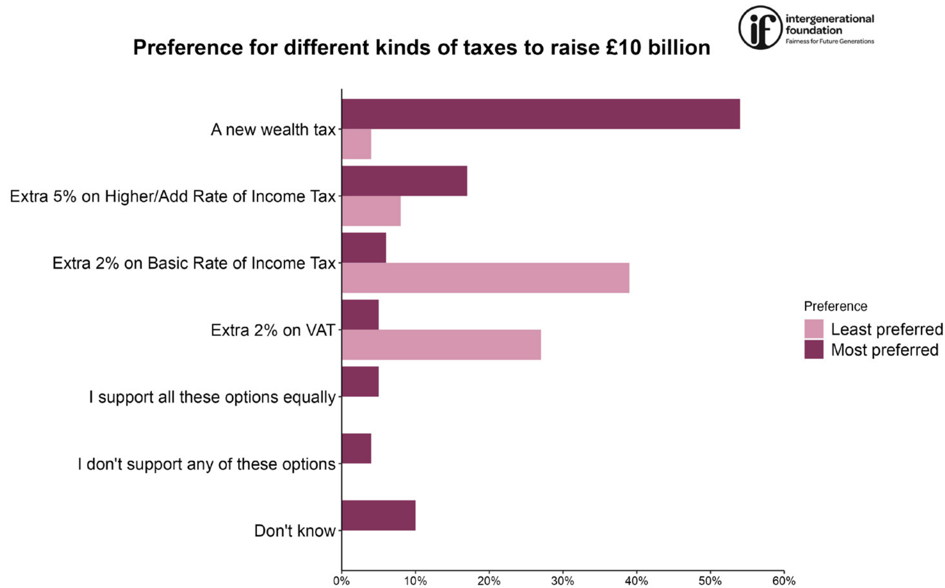
However, researchers studying the abolition of Denmark's wealth tax found that wealth inequality began to grow after abolishing the wealth tax, implying that a wealth tax can act as a useful measure to lower inequality between and within generations.[25] Instead of abandoning the idea of taxing wealth, the historical examples outlined in this report suggest that wealth taxes should be better designed, use modern technologies to administer, and build on recent victories in global wealth and tax transparency to minimise administrative costs and avoidance.[26] Analysis of historical wealth taxation shows that a wealth tax should: be difficult to avoid for the wealthy; not include many exemptions or reliefs which enable avoidance; have relatively high thresholds to minimise administration costs; avoid burdening the majority of the middle-classes; utilise improvements in tax transparency laws; and be designed in a manner which targets the wealth of the very wealthy to maximise revenue in relation to administration costs.

2.5. Is there support for a wealth tax?

Broad-based taxes on net wealth are highly popular among the public. In a survey commissioned by the Wealth Tax Commission, the introduction of a new wealth tax was the top preference of respondents (41%) when asked for their preference if an existing tax had to be raised or a new one instituted, with widespread support across age groups and political party-affiliations.[27] In comparison, 21% responded that Council Tax increases on properties worth over £1 million was their first preference. Just 17% of respondents preferred capital gains tax increases, while only 7% and 4% preferred income tax increases or VAT increases, respectively.[28] The primary reason why respondents supported wealth taxes was because it could reduce the gap between the rich and the poor, but it is worth noting that 12% supported wealth taxes because they would help reduce the tax burden on future generations.[29] In another survey, also undertaken by the Wealth Tax Commission, respondents were asked what their preference was for different kinds of taxes to raise £10 billion. Figure 2 shows the results of the survey and reveals that a new wealth tax was the most preferred at 54%, and only 4% responded that a new wealth tax was their least preferred option.

[24] Förster, M., Llena-Nozal, A., Nafilyan, V. (2014) Trends in Top Income and Taxation in OECD Countries. OECD Social, Employment and Migration Working Papers, No. 159
[25] Jakobsen, K., Jakobsen, K., Kleven, H., Zucman, G. (2018) Wealth Taxation and Wealth Accumulation: Theory and Evidence from Denmark
[26] Perret, S. (2020) Why did other wealth taxes fail and is this time different? Wealth Tax Commission
[27] Rowlinson, K., Sood, A., Tu, T. (2020) Public attitudes to a wealth tax. Wealth Tax Commission
[28] Ibid.
[29] Ibid.

Figure 2



By far the most common concern among respondents regarding a wealth tax was the belief that the wealthy would inevitably find a way to avoid the tax, which underlines the importance of ensuring that the design of a wealth tax does not allow for loopholes for the wealthy to exploit.[30] While it might be presumed that many wealthy people would be against a wealth tax out of self-interest, groups such as Patriotic Millionaires UK have been campaigning for taxes to be levied on extreme wealth in order to reduce inequality.[31] Another survey, undertaken by YouGov, shows that taxes on extreme wealth are popular, as 73% of respondents were in favour of an annual wealth tax of 2% on wealth above £5 million and 78% supported an annual wealth tax of 1% on wealth above £10 million, with both proposals drawing cross-party support.[32]

It is highly likely that the renewed interest in wealth taxation is connected to the growth in inequality. Raising awareness of wealth inequality and its negative impacts on the economy in the long term must therefore form the core of an argument in favour of a wealth tax. Indeed, support for a wealth tax is most likely to increase if a holistic argument can be given to the public on the many benefits associated with a well-designed wealth tax.

[30] Rowlinson, K., Sood, A., Tu, T. (2020) Public attitudes to a wealth tax. Wealth Tax Commission
[31] Patriotic Millionaires UK, www.patrioticmillionaires.uk
[32] YouGov (2023) Three quarters of Britons support wealth taxes on millionaires

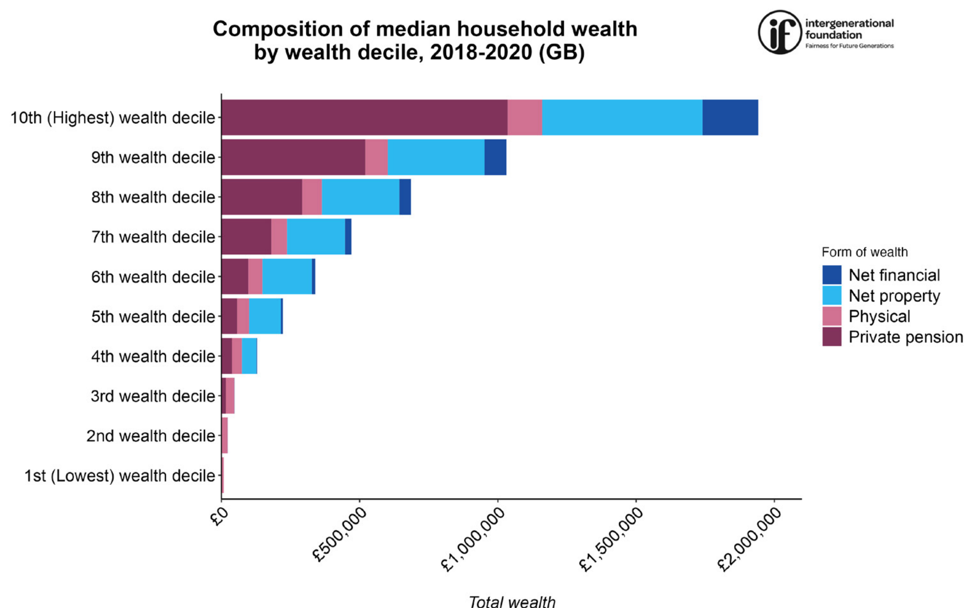
3. An overview of wealth in the UK

The overall level of wealth in the UK has grown massively in recent decades, but many people, particularly the young, have not benefitted from the aggregate growth in wealth. Wealth inequality is both greater and increasing faster than income inequality in the UK. Due to the simultaneous growth in aggregate wealth on the one hand and wealth inequality on the other, the question of wealth distribution and its impacts on the economy has gradually grown as an area of interest for researchers and policymakers alike. Piketty argued that the result of returns on wealth being greater than economic growth leads to an economy characterised by increasing inequality and low productivity, and that taxes on wealth are among the few tools that can be used to overcome this self-reinforcing cycle.[33] This chapter provides an overview of wealth in the UK: who holds the wealth, in what form most of the wealth is held, and how wealth inequalities are evolving.

3.1. The composition and distribution of wealth

The growth in household wealth has largely been driven by an increase in property wealth and private pension wealth, which make up 36% and 42% of total household wealth, respectively.[34] Figure 3 shows the composition of total wealth by wealth decile.

Figure 3

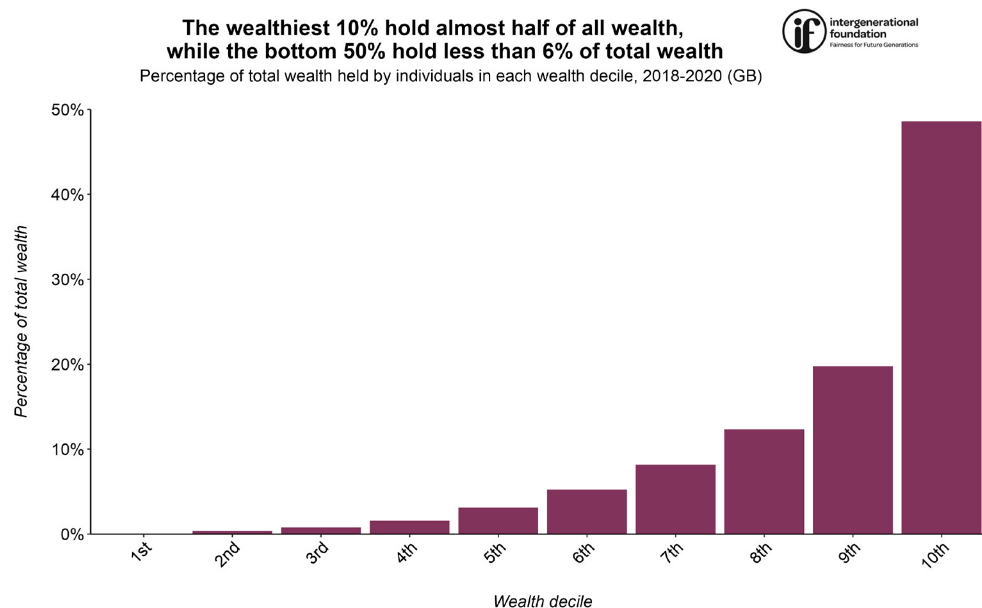


[33] Piketty, T. (2014) Capital in The Twenty-First Century. Cambridge, MA: Harvard University Press
[34] ONS (2022) Total wealth: Wealth in Great Britain, 2018-2020

As can be seen in Figure 3, total wealth for the least wealthy 30% of the population is negligible, and the little wealth that is held is largely in the form of physical assets, such as vehicles or consumer goods. Financial wealth is predominantly held by the very wealthiest in society. Property wealth is the most significant source of wealth for those in the middle of the wealth distribution, while private pensions constitute the largest source of wealth for those in the top three deciles. It is also worth noting that higher-returning, risky assets are much more prevalent at the top of the wealth distribution, and that the bottom half almost exclusively hold zero-return or safe assets.[35] In fact, since the wealthiest individuals' composition of wealth includes more high-return assets, the top three wealth deciles enjoy three to ten times higher returns on financial wealth than the bottom three deciles.[36]

Wealth is also highly unevenly distributed in Great Britain with a small proportion of the population holding a large share of total wealth, as shown in Figure 4.

Figure 4



Although the wealth differences as shown in Figure 4 are stark, it must be noted that household surveys such as the Office for National Statistics (ONS) Wealth and Assets Survey tend to underestimate the wealth of those at the top of the wealth distribution, with research showing that approximately £800 billion is unaccounted for in such

[35] Advani, A., Bangham, G., Leslie, J. (2020) The UK's wealth distribution and characteristics of high-wealth households. Wealth Tax Commission

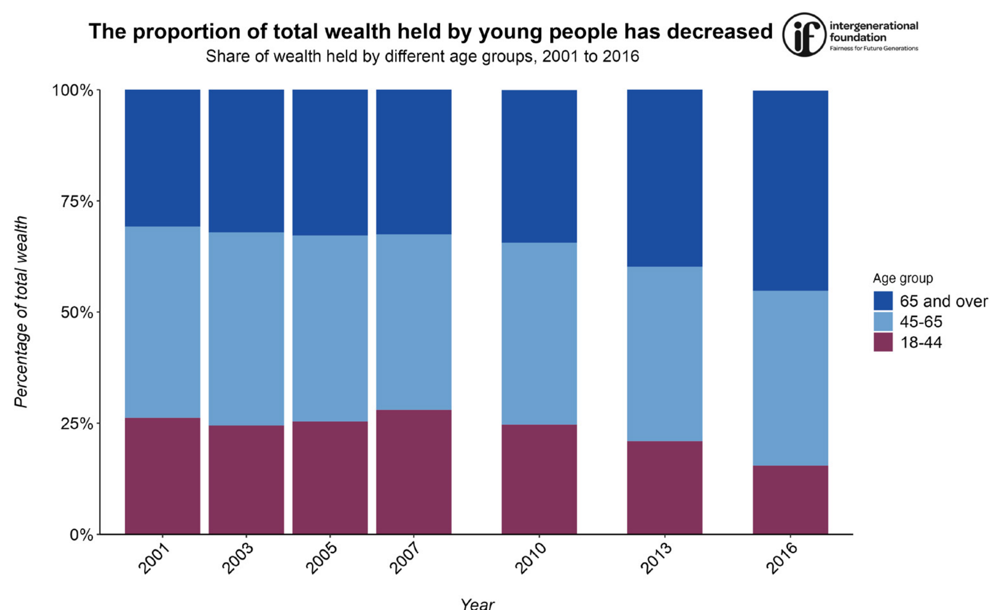
[36] Bangham, G., Leslie, J. (2020) Rainy Days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain. London: Resolution Foundation

surveys from the very wealthiest.[37] Thus, the true division of wealth is in fact even more unequal than the wealth distribution as seen in Figure 4. The wealthiest 1% in the UK hold approximately £5.1 million pounds in wealth per individual on average, with financial assets and business wealth being the main forms of wealth held by individuals with a net wealth exceeding £5 million.[38] Wealth inequality has also worsened compared to a decade prior, as the wealthiest 10% only held 43.8% of total wealth in 2008–10 but this had risen to 48.6% of total wealth by 2018–2020.[39]

3.2. Division of wealth between generations

If wealth inequality has been growing quickly across society as a whole, the disparities of wealth are even starker when assessed through a generational lens. Previous research by the Intergenerational Foundation showed that younger people are struggling to save, and those who can save do not have access to the same high-returning assets that older generations have benefitted from.[40]

Figure 5



Source: IF analysis of HMRC Personal Wealth data.
Values may not add up to 100 due to rounding.
© Intergenerational Foundation 2024 www.if.org.uk

[37] Advani, A., Bangham, G., Leslie, J. (2020) The UK's wealth distribution and characteristics of high-wealth households. Wealth Tax Commission
[38] Ibid.
[39] ONS (2012) Wealth in Great Britain, 2008-2010
[40] Haglund, A. (2022) The Savings Squeeze: Young people locked out from the benefits of saving. London: The Intergenerational Foundation: www.if.org.uk/research-posts/the-savings-squeeze-young-people-locked-out-from-the-benefits-of-saving

Figure 5 demonstrates how the share of wealth held by younger people has fallen since 2001. Those aged between 18 and 44 years held 26.2% of total wealth in 2001, but this had fallen to 15.5% by 2016. Although the share of overall wealth held by younger people remained relatively stable between 2001 and 2010, this was followed by a steep decline in the years after 2010. Total wealth held by those aged 65 years and older increased from 30.8% in 2001 to 45% 2016. While this is partly due to an ageing population, it is also due to absolute growth in wealth per individual, as can be seen in Figure 6.

Figure 6

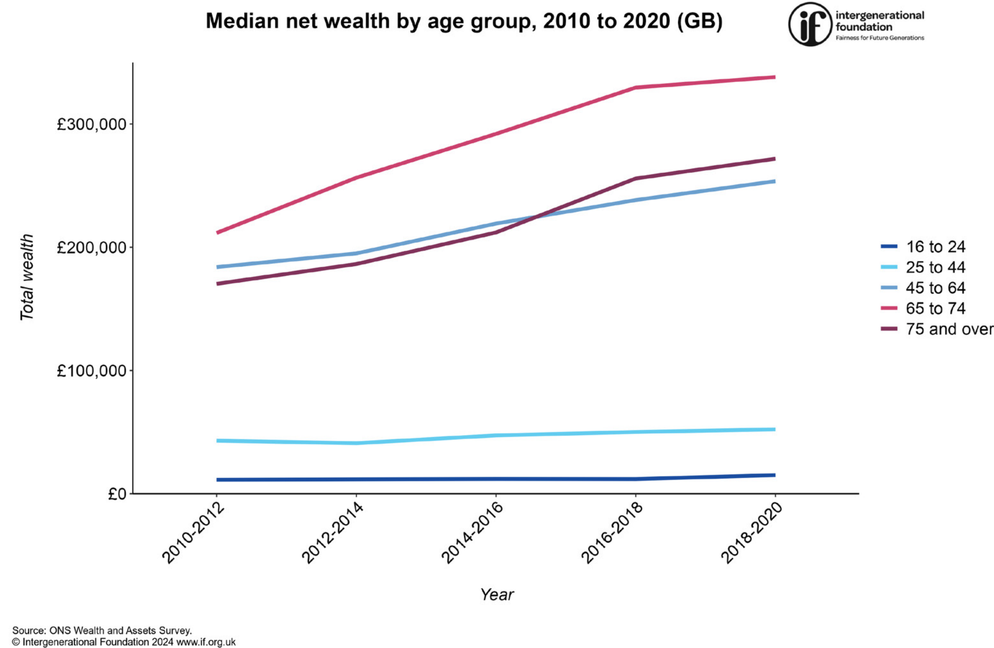


Figure 6 reveals that the median net wealth for everyone aged under 45 years of age has remained relatively stable over the past decade, albeit at low levels. This is in stark contrast to the median net wealth held by everyone over the age of 44, since all age groups above 44 years have experienced a dramatic increase in the level of median wealth between 2010 and 2020. Median net wealth for those aged 45 to 64 increased from £184,000 to £254,000, while the median net wealth for the 65 to 74 age group grew by 60% from £211,100 to £338,000 over the time period. The median net wealth for those aged 75 or older surpassed the median net wealth of those aged 45 to 64 for the first time in 2018 and stood at £272,000 in 2020. As previous IF research showed, there were over three million retirees aged 65 years or older with household wealth in excess of £1 million in 2020.[41]

[41] Intergenerational Foundation (2022) 3 Million Pensioner Millionaires: Identifying the numbers. London: The Intergenerational Foundation: www.if.org.uk/research-posts/3-million-pensioner-millionaires-identifying-the-numbers/

It is understandable that younger people have less wealth than those who are older, since they have not had a lifetime to accumulate wealth. However, it is worrying that young people's wealth has failed to grow at similar rates to the wealth of older people, thereby exacerbating intergenerational inequities. Furthermore, research has shown that young people have much lower levels of real wealth in comparison to what older people had at the same age.[42]

It is worth bearing in mind that the figures outlined do not include the effects of asset price increases since 2020. This is due to the length of time it takes for the government to release wealth and assets survey data which is collected biannually. However, proxy measures can be used to assess changes in wealth distribution. IF researched how older generations bought up more housing space during the COVID-19 pandemic.[43] The fact that older generations went on a spending spree, the behaviour of which fuelled house prices further, demonstrates how young people's wealth relative to older generations is likely to have deteriorated much further since 2020. The younger generation has also obviously suffered from other effects such as job losses, the surge in rents, inflation, the cost-of-living crisis and the energy crisis.

3.3. Wealth inequality between young people is growing

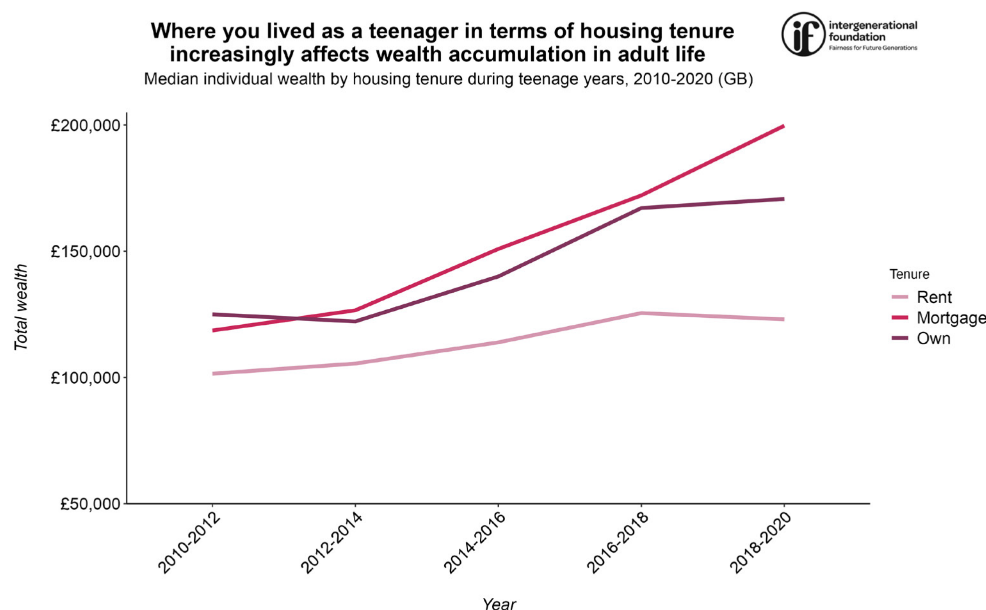
Research into intergenerational social mobility almost exclusively focuses on measuring parental income, and thus fails to account for growing wealth transfers within families. Returns to wealth have been growing, leading to intergenerational wealth transfers forming a larger overall proportion of national income. Added to that is the fact that unearned income has become an increasingly important determinant within these intergenerational transfers and younger people's expected lifetime income.[44] This means that intergenerational wealth transfers are likely to drive and increase intra-generational inequalities and lower social mobility over the long term, which has not been adequately captured by intergenerational social mobility research to date.

Housing wealth can be looked at as a proxy to understand wealth inequalities within younger generations and how it is changing. New research has shown that young people from advantaged backgrounds are likely to have an equal level of housing wealth to age cohorts from similar backgrounds over the past three decades, but that young people from disadvantaged backgrounds are less likely to hold housing wealth comparable to previous

[42] Cribb, J., Hood, A., Joyce, R. (2016) The Economic Circumstances of Different Generations: The Latest Picture. IFS Briefing Note BN187. London: Institute for Fiscal Studies
[43] Wiles, C. (2021) Stockpiling space: How the pandemic has increased housing inequalities between older and younger generations. London: The Intergenerational Foundation: www.if.org.uk/research-posts/stockpiling-space-how-the-pandemic-has-increased-housing-inequalities-between-older-and-younger-generations
[44] van der Erve, L., Krutikova, S., Macmillan, L., Sturrock, D. (2023) Intergenerational mobility in the UK. London: Institute for Fiscal Studies

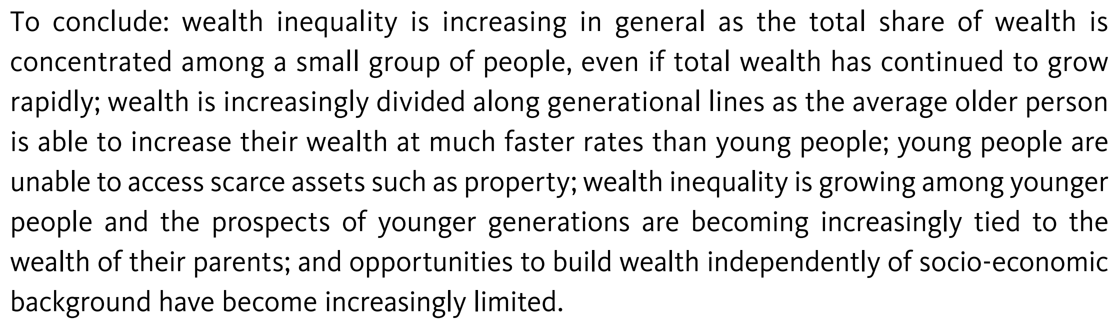
cohorts from a similar background over the three-decade period analysed.[45] A similar trend has been observed in the increasing correlation between parental and child home ownership, and in the value of the home.[46] If this trend is to continue it means that an increasing number of young people will never be able to build financial security or save towards a deposit, and fewer and fewer young people are likely to be able to rely on the Bank of Mum and Dad as wealth becomes concentrated among fewer people. Figure 7 shows how the levels of wealth held by adults who grew up in owner-occupied homes are increasingly diverging from the wealth of those who lived in rented accommodation as teenagers.

Figure 7



In fact, an increasing number of young people are unable to enter the rental market at all, shown by the fact that approximately 20% of young adults aged 20 to 34 lived with their parents two decades ago, but this had risen to 27% by 2021.[47] This suggests that tackling wealth inequality both between and within generations is necessary to ensure that young people and future generations do not have to live in a society increasingly characterised by runaway wealth inequality.

[45] Gregg, P., Kanabar, R. (2023) Parental homeownership and education: the implications for offspring wealth inequality in GB. Centre for Education Policy & Equalising Opportunities Working Paper, No. 22-01. University College London
[46] Blanden, J., Eyles, A., Machin, S. (2021) Trends in intergenerational home ownership and wealth transmission. Centre for Economic Performance Discussion Paper, No. 1756. London School of Economics
[47] ONS (2022) Labour Force Survey: Young adults living with their parents



To conclude: wealth inequality is increasing in general as the total share of wealth is concentrated among a small group of people, even if total wealth has continued to grow rapidly; wealth is increasingly divided along generational lines as the average older person is able to increase their wealth at much faster rates than young people; young people are unable to access scarce assets such as property; wealth inequality is growing among younger people and the prospects of younger generations are becoming increasingly tied to the wealth of their parents; and opportunities to build wealth independently of socio-economic background have become increasingly limited.

4. The intergenerational case for a wealth tax

The argument for a wealth tax extends beyond raising revenue. Even with a fiscally neutral wealth tax, it would be possible to overcome many economic issues faced by the country and felt across generations. From a policy perspective, it is important that a wealth tax is framed in a wider sense than merely as a possibility for raising revenue, since reducing wealth inequality and lowering the taxation burden on work are equally important policy goals for creating an economy that works for young people and future generations.

An intergenerational lens reveals that a wealth tax can: reduce inequality; reduce housing unaffordability; improve productivity; boost economic growth; ensure both financial and fiscal stability; and help to combat ecological breakdown. In addition to the general economic arguments in favour of a wealth tax presented in Chapter 2, this section explains the intergenerational fairness issues as to why young people suffer disproportionally from high wealth inequality today and why it is important to reform the system for future generations.

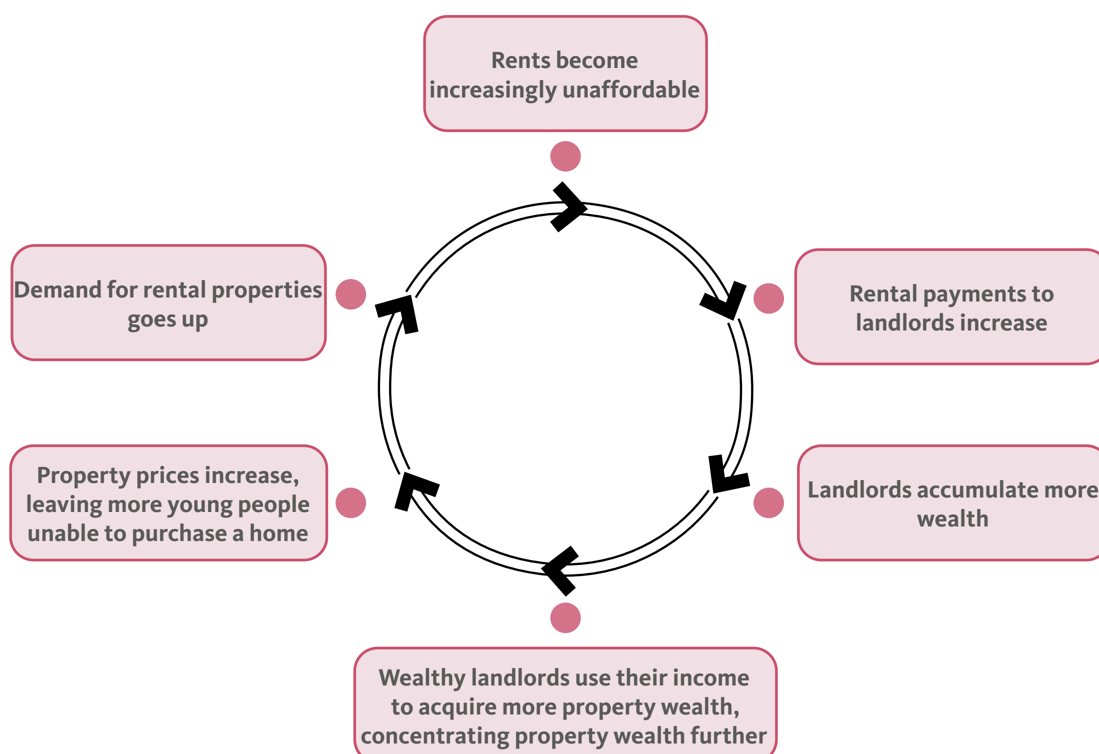
4.1. The feedback loops of wealth inequality

Wealth inequality has various intertwined and self-reinforcing negative effects on young people and future generations. The following sections explain why an economy characterised by high and increasing wealth inequality disproportionately affects the young by negatively impacting their chances of being economically secure, purchasing a home and finding well-paid jobs.

4.1.1. Wealth begets wealth

Those with high levels of wealth tend to only spend a fraction of their wealth and instead hold the vast majority of their wealth as savings, allowing them to accumulate further wealth. Those with little or no wealth have low spending power and the vast majority of their spending goes towards essential spending, particularly on housing in the form of rent. This unequal spending dynamic creates an advantageous feedback loop for the wealthy, as much of the essential spending by those with less wealth feeds back to the wealthy in the

form of unearned income through the ownership of assets. This creates a self-reinforcing cycle, where a significant portion of the income of the asset-less feeds back to those who own assets, perpetuating disparities of wealth.



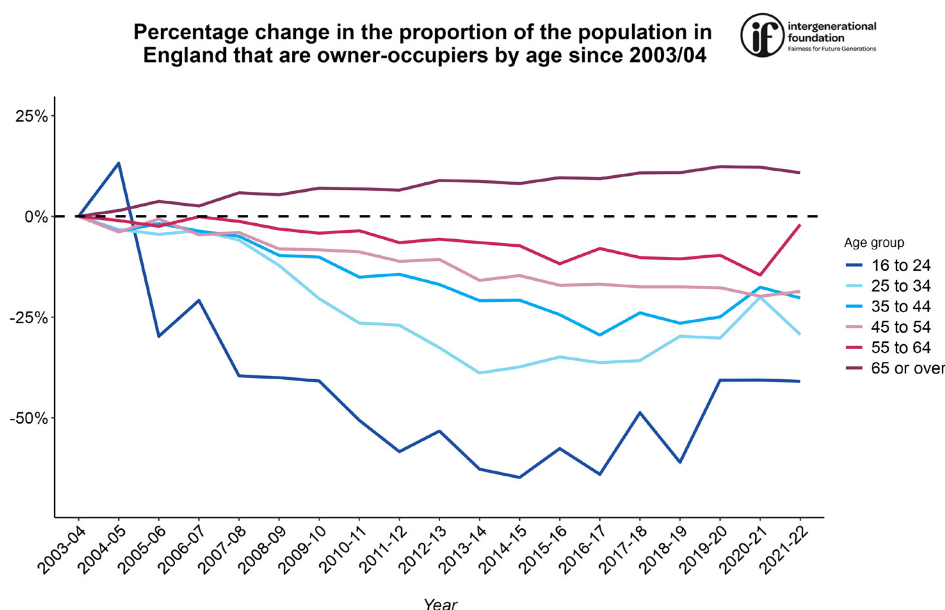
The ability of the wealthy to access secure and high-returning assets, such as property, stands in stark contrast to the young and those on lower incomes who are unable to acquire such assets. Property is the largest store of wealth in the UK excluding private pensions, and when the wealthy gain more wealth, they tend to invest it in assets such as property, which increases the demand on the housing stock, pushing up the price of accommodation without any actual increase in productive output. This cycle, where wealth generates more wealth, is underscored by research from Norway revealing that higher returns on investment for individuals with more wealth are persistent over time. The wealthiest 10% were likely to receive an 18% higher return on investment than the least wealthy 10%.[48] Furthermore, inherited wealth has now become the primary force in the creation of new billionaires, rather than wealth gained through entrepreneurship, showing how cycles of wealth are increasingly self-perpetuating.[49]

[48] Fagereng, A., Guiso, L., Malacrino, D., Pistaferri, L. (2019) Heterogeneity and Persistence in Returns to Wealth. Research Council of Norway and Washington Center for Equitable Growth
[49] UBS (2023) Billionaire Ambitions Report 2023: Changing of the guard

4.1.2. Wealth inequality leads to young people being priced out of homeownership

A rise in house prices increases the wealth of those owning properties, but that rise also pushes up housing costs and therefore increases the cost of living for those who do not own their homes. Homeownership rates for everyone under the State Pension Age have declined in comparison to two decades ago, with the sharpest declines in homeownership rates witnessed among the youngest age groups, as can be seen in Figure 8.

Figure 8



Source: English Housing Survey and English House Condition Survey.
Owner-occupiers includes those who own outright and those with a mortgage.
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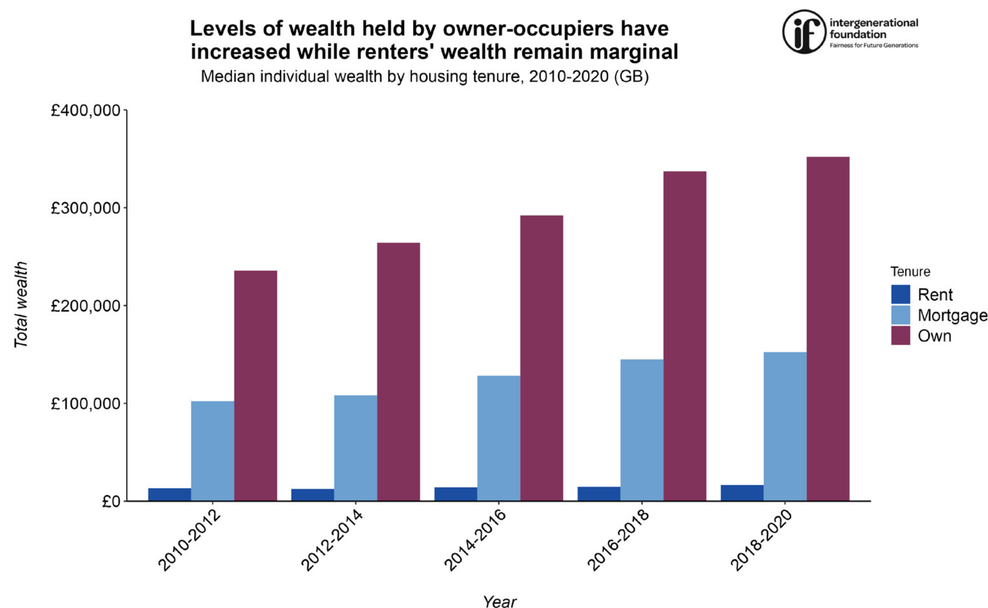
The decrease in homeownership among the young and the increase in people stuck in an unaffordable private rental market are intrinsically connected to the issue of wealth inequality. The fact that rents have skyrocketed, homeownership rates for young people have declined, and property wealth has become increasingly concentrated among a smaller proportion of the population are all interlinked issues.

Since homeownership rates have declined for every age group under the age of 65 relative to 2003, this implies that property wealth is increasingly held by a limited few. A large part of the salaries of young working people feed straight into the hands of property owners in the form of rent. This influx of unearned income further increases the wealth of property owners, allowing them to acquire more property wealth or other assets. This, in turn, drives up asset prices further, making it increasingly difficult for those who do not own property to get on the property ladder and purchase their first home.

As property prices increase, the cost of renting will follow suit, since fewer people will be able to afford to purchase a home and demand for rental properties will go up as a result. This creates upward pressure on the cost of renting, which means that a larger share of renters' incomes must be paid in rent to their landlords. Consequently, an increasing share of newly created wealth is captured by the wealthy from the wealth-less, and the wealthy can continue to accumulate more. The fact that total rent paid by tenants in Great Britain more than doubled from £40.3 billion in 2010 to £85.6 billion in 2023 is illustrative of the scale of the transfers of wealth from the young and asset-less to older and wealthier individuals.[50] Figure 9 shows how the wealth of owner-occupiers has rapidly increased over the past decade, while the levels of wealth for renters has largely stagnated.

Figure 9



Naturally, there are many measures needed to fix the housing crisis (e.g. increasing supply) but the housing market serves as an important example of inequality and demonstrates the self-reinforcing cycles of wealth inequality. When young and low- and middle-income renters are forced to accept ever-increasing rents in order to finance the mortgages and property purchases of already wealthy landlords, the cycle of wealth inequality and housing unaffordability worsens. It shows why high levels of wealth inequality has a negative impact on various aspects of our lives, and why such effects are self-reinforcing.

[50] **Hamptons (2023) Record rental growth pushes annual rent bill to £85.6bn in 2023**

4.1.3. Growing wealth inequality decreases the spending power of the young

It is through the use of money, held as wealth in different forms, that we organise the economy in terms of the production and distribution of goods and resources, such as housing, food, energy and consumer goods. If we take the example of housing, it is through wealth that housing is distributed, as those with the most wealth can outcompete those with less wealth to purchase properties. Thus, wealth can be understood as relative power to access real-world assets, with its value contingent on comparisons between groups or individuals. When wealth inequality grows without an equivalent increase in economic output, it implies that those with less wealth have effectively become poorer, even if the nominal figure of their savings might have increased.

Consider the scenario of a property purchase, where one individual has been given an extra £1,000. This might appear as an increase in wealth and therefore an increased ability to acquire scarce assets, but if another individual who is vying for the same property was given £5,000, then the first individual would effectively have become poorer and less able to compete for the property despite the additional £1,000. This scenario illustrates the intergenerational unfairness of an economy characterised by increasing wealth inequality, as the spending power of young people diminishes even if aggregate wealth grows. Since real wages have stagnated for almost two decades while asset prices have soared, young people and those on lower incomes do not benefit from growth in aggregate wealth as they lack the ability to acquire assets. Older and wealthier generations, on the other hand, do own assets and therefore benefit from growth in aggregate wealth as asset prices rise. The distribution of wealth plays a significant role in how our economy functions, as it determines the spending power of groups and individuals and their ability to acquire real-world assets, such as property. Increasing wealth inequality leads to an economy that is geared towards serving the interests and consumption demands of the wealthy, since their spending power is constantly increasing in relation to the spending power of the average person.

4.1.4. High wealth inequality leads to low productivity, low growth, and low wages

The interconnected relationship between high wealth inequality and low productivity and growth has been observed by academics and wealth tax campaigners alike.[51] The wealthy tend to save the vast majority of their income, leveraging their wealth to acquire more assets. Conversely, those on low- and middle incomes are likely to spend almost their entire incomes on essentials and other consumer goods. In fact, very few young people can manage to save much at the end of the month, largely due to having to spend such a high proportion of their salaries on essentials such as rent and bills. [52] Since the wealthy

[51] See for example, Tax Justice UK, www.taxjustice.uk, Stevenson, G., www.wealtheconomics.org, and Piketty, T. (2014) Capital in The Twenty-First Century. Cambridge, MA: Harvard University Press

[52] Haglund, A. (2022) The Savings Squeeze: Young people locked out from the benefits of saving. London: The Intergenerational Foundation: www.if.org.uk/research-posts/the-savings-squeeze-young-people-locked-out-from-the-benefits-of-saving

use most of their income to acquire more wealth and only spend a fraction on goods and services, this results in lower overall spending as wealth inequality increases. Thus, overall demand in the economy slows down as wealth inequality increases, since the wealthy only spend a fraction of their income or wealth on goods or services in the real economy.

The consequence of decreasing overall spending as wealth inequality grows is that it becomes increasingly difficult to build an economy based on increasing real economic output. Investment in productive enterprises becomes risky, as overall demand is less likely to be able to satisfy sufficient returns on investment. This creates an economy that fails to invest in productive activity that can boost national economic output and increase the real output of goods and services. Instead, there is a gradual shift towards an economic model based on wealth extraction through economic rent-seeking endeavours such as owning and renting land and property. The emergence of this trend can also be noted in the digital sphere, as the business model of the largest multi-national giants such as Amazon or Meta rely on economic rent-seeking to access their platforms. When investment in productive enterprise is low, real economic output and real wages are likely to stagnate, hurting the living standards of the young and those on lower incomes. The cycle of increasing wealth inequality perpetuates a scenario of low growth and low productivity, hampering both individual and societal progress and impacting the economic opportunities of younger generations.

Young people and those starting out in the economy face additional challenges when growth and productivity are weak. When the majority of newly created wealth is used to accumulate more wealth rather than spent in the real economy, it means that demand for goods and services fall. As a result, businesses struggle to stay open and once vibrant high streets quickly become deserted. The resulting scarcity of well-paid jobs only compounds the situation further, as low levels of consumption lead to low demand for labour and wages stagnate or fall in relation to the growth in wealth. Indirectly, wealth inequality therefore also affects income inequality and job security, as evidenced in the statistics showing that a majority of people in poverty in the UK are in employment.[53] If wealth inequality continues to rise, future generations will come face-to-face with a labour market that is increasingly characterised by low-paid, precarious jobs with little job security.

Looking into the future, increasing wealth inequality can have secondary impacts, including: declining birth rates; increasing indebtedness through financialisation and rent-seeking; stagnating wages; and increased speculation in financial and housing markets. These factors played a key role in the financial crisis of 2008, and the UK is particularly vulnerable to further financial instability, since economic inequality and its associated economic features of debt-financing, depressed demand, and stagnating wages have

[53] Joseph Rowntree Foundation (2020) UK Poverty 2019/20: The leading independent report

not been addressed since.[54] The many impacts of wealth inequality highlighted in this chapter negatively influence the prospects for young people and worsens the economic landscape future generations will inherit. Furthermore, each of the negative aspects of wealth inequality increase wealth inequality further, creating a self-reinforcing cycle that can only be broken by government intervention to safeguard the health of the economy on behalf of both present and future generations. A wealth tax could be utilised to redress the unfair economic and financial situation young people have found themselves in, and simultaneously contribute to breaking the cycle of ever-increasing wealth inequality so that future generations do not inherit an even more inequitable economy and housing market.

4.2. The social and environmental cases for a wealth tax

In addition to the merits of a wealth tax that relate specifically to the economy, proponents of wealth taxes also emphasise the importance of wealth redistribution to fight climate change. Ecological breakdown is among the most pressing intergenerational injustices, and a radical transformation of political and economic structures is necessary to ensure a habitable planet for future generations. Wealth inequalities are closely intertwined with environmentally harmful activities and extractive economic models, and their interconnection cannot be overlooked.

Since the global economic system is inextricably intertwined with fossil fuels, the wealthiest in society have benefitted financially, directly or indirectly, from the activities that cause climate change. Since 1990, the wealthiest 1% globally have been responsible for approximately 23% of worldwide emissions, while the poorest 50% have only been responsible for approximately 16% of total emissions.[55] Although these statistics are from a global perspective, the same division of carbon consumption can also be witnessed in the UK. For example, it is only because of the massive rise in the wealth of the already wealthy that UK private jet flight departures could increase from 19,000 in 2020 to 90,000 in 2022 – the highest increase across European countries.[56] Research revealed that only 38% of global carbon inequality in 1990 were due to inequalities within countries rather than between countries, but this figure had risen to 64% by 2019, showing the significant impact of increasing wealth inequality within nations on carbon emissions.[57]

Principles of climate justice view that those who have not benefitted from, or caused, the problems related to climate change, i.e. those with less wealth today and future generations, should not bear a disproportionate cost in tackling the problem. Their rights to a dignified

[54] Friedrich-Ebert Stiftung & New Economics Foundation (2014) Inequality and financialisation: A dangerous mix
[55] Chancel, L. (2022) 'Global carbon inequality over 1990-2019'. Nature Sustainability. 5, pp. 931-938
[56] Faber, J., Raphael, S. (2022) CO2 emissions of private aviation in Europe. CE Delft
[57] Chancel, L., Bothe, P., Voituriez, T. (2023) Climate inequality report 2023. World Inequality Lab

life should not be unduly infringed upon. Without hampering the opportunities for future generations to have a decent standard of living, or the abilities of low-income nations to improve the standards of living for their citizens today, the project to stop the worst impacts of climate change must include addressing the carbon-intensive lifestyle of the wealthiest in society, and instead use what remains of our carbon budget more efficiently.[58] When the wealthy own a large proportion of overall wealth, demand in the economy becomes increasingly geared towards the needs of a few very wealthy people due to their sheer spending power, instead of being focused on meeting societal challenges. As the wealthiest 1% of the world have captured half of all global wealth created over the past decade, it is hardly surprising that the demand for superyachts and private jets has surged, while future generations are left to pick up the ecological cost of the carbon-intensive lifestyle of their profligacy.[59]

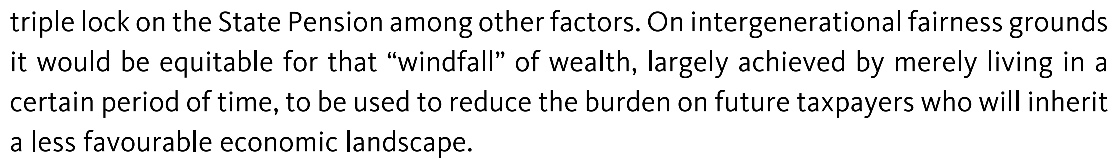
Perhaps, as the charity, Oxfam and the economist, Piketty have proposed, wealth that has been generated through polluting industries should face a steeper rate of taxation than other wealth in order to discourage investment in polluting industries and make sure that those people who have benefitted the most financially from polluting industries pay more.[60] Although that may be difficult to achieve from a tax-design perspective, what is certain is that a wealth tax is intergenerationally just from an environmental perspective and can help to fund the urgently needed transition to a decarbonised economy.

4.3. A tax system fit for the challenges of the future

Given that we live in an ageing society where a larger proportion of national income must be spent on costs associated with ageing, how that money is raised is increasingly a question of intergenerational justice. Young people and those without wealth primarily receive their income from work, which is already taxed at much higher levels than income from wealth, while wealth itself is essentially untaxed.

As noted by Brian Reading, former economic advisor to former Prime Minister, Edward Heath, among the benefits of a wealth tax is that it is more progressive than taxes on income or spending.[61] A wealth tax would primarily fall on older and wealthier generations, since few young people have levels of wealth liable for a wealth tax. The vast majority of wealth is held by older generations, and the generational wealth rift is increasing. Furthermore, a large proportion of this wealth can be considered "windfall" wealth in that older generations have been fortunate enough to benefit from an unprecedented temporal period of rising property prices, generous pensions, free higher education tuition, and the

[58] Wiedmann, T., Lenzen, M., Keysser, L. T., Seinberger, J. K. (2020) 'Scientists' warning on affluence'. Nature Communications. 11, pp. 1-10
[59] Oxfam (2023) Survival of the richest: How we must tax the super-rich now to fight inequality
[60] Oxfam (2022) Carbon billionaires: The investment emissions of the world's richest people
[61] Reading, B. (2022) How to introduce a radical wealth tax. 23 March. Official Monetary and Financial Institutions Forum



triple lock on the State Pension among other factors. On intergenerational fairness grounds it would be equitable for that “windfall” of wealth, largely achieved by merely living in a certain period of time, to be used to reduce the burden on future taxpayers who will inherit a less favourable economic landscape.

COVID-19 exacerbated existing inequalities in society. The present political economy and the current tax system are incapable of changing the course of the growing rift in wealth between and within generations. The current tax system already places a disproportionately high tax burden on the young and on income from work, meanwhile older and wealthier generations continue to receive exemptions, reliefs, and lower rates on income from wealth, while wealth itself is hardly taxed at all. This leaves little room for future governments to raise tax revenue in a way that is fair to all generations. Although the government reduced National Insurance Contribution rates by two percentage points, effective since the beginning of 2024, this welcome policy is counteracted by the decision to freeze Income Tax and National Insurance Contributions' thresholds. The freezing of thresholds disproportionately impacts the young and low- and middle-income workers and serves as an example of the perpetuation of intergenerationally unfair taxation. Introducing a wealth tax and equalising the taxation of earned and unearned income should be at the heart of any taxation reform in order to ensure that the tax system is fit for the future.

5. How much revenue would a wealth tax raise?

When governments raise the rates of existing taxes or create new ones, they are faced with two options. A government may choose to use the extra revenue for spending ambitions or opt to relieve the tax burden elsewhere in the economy. Beginning with a discussion on options for how to design a wealth tax, the following sections explain how the implementation of a wealth tax opens up the opportunity for the present, or future, governments to either raise additional tax revenue, or to lower the tax burden on income from work.

5.1. A one-off wealth tax versus an annual wealth tax

Two different types of wealth taxes exist. A one-off wealth tax is not a recurring tax but is only applied once or over a specific time period. For example, a one-off wealth tax might be a tax of 1% on all wealth above £1 million, payable in instalments over five years. An annual wealth tax, on the other hand, would be a permanent reform of the tax system and be payable annually. It would require assessing an individual's level of wealth each year, with the tax payable annually within the current taxation system. Although both are forms of broad-based wealth taxes, the objectives of each differ. One-off wealth taxes have historically been used to pay for catastrophic or unexpected events, such as a war or a natural disaster. The Wealth Tax Commission has undertaken extensive research into the merits and feasibility of a wealth tax in the UK, and it recommended a one-off wealth tax paid over five years with the purpose of raising tax revenue. The Wealth Tax Commission stated that its main concern was raising tax revenue in the aftermath of the COVID-19 pandemic instead of using wealth taxes as a tool to reduce inequality.

From an intergenerational justice perspective, it is important to ensure that present and future governments can raise enough revenue to fund expenditure today as well as in the long term, with a focus on the sustainability of public services, which are the pillars upon which the UK's welfare state is based. As discussed in the previous chapter, wealth inequality is self-reinforcing and causes long-term issues for the health of an economy both for young people today and for future generations. A primary concern must therefore be to reduce inequality between and within generations. Furthermore, an intergenerational inquiry into the fairness of the tax system shows that it penalises young people and those earning their income through work, and the tax system should therefore be permanently reformed.

Since the goals of intergenerational justice differ from the perspective of the Wealth Tax Commission, an annual wealth tax is more suitable for the purpose of intergenerational justice, as it is better at reducing wealth inequality and can shift the taxation burden from earned income towards wealth today as well as in the future. This option does not preclude the possibility of using a wealth tax as a policy for raising tax revenue, but it also places an importance on the role of a wealth tax as a tool for reducing inequality and making the tax system as a whole more progressive and intergenerationally fair. As research has demonstrated, a progressive annual wealth-tax could raise substantial revenue and reduce wealth inequality while avoiding the design issues faced by historical wealth taxes.[62]

5.2. How to design a wealth tax

All reforms to the tax system must take into account the impacts of how a tax is designed. Questions of tax design, although often technical in nature, are crucial in order to ensure that the tax functions as intended and does not lead to unwanted secondary effects.

5.2.1. Tax bases and thresholds

The costs of administering a tax must be considered when deciding on the optimal rate structure of a wealth tax. A larger tax base, i.e. more people contributing at a lower threshold, would lead to higher administrative costs. It is therefore important to decide on a threshold that can raise the revenue required while minimising the annual administrative burden. A large part of the administration cost is the issue of valuation, specifically of assets that are difficult to value. In order to minimise administrative costs for HMRC and taxpayers as a whole, the Wealth Tax Commission recommends that items valued under £3,000 should not be included when assessing taxable wealth.[63] Daly and Loutzenhiser provide a thorough overview of valuation issues and how they can be overcome.[64]

5.2.2. Considering liquidity constraints

It is important that the design of an annual wealth tax considers potential liquidity issues such as those people who are “asset-rich, cash-poor”, often called “brick-rich, cash-poor” and mainly comprising older people. Even though a large proportion of their wealth may be illiquid, that does not mean that other forms of wealth or other forms of income, such as their pensions, could not be used to pay a wealth tax.[65] Researchers have also pointed out that one of the benefits of wealth taxes is precisely that it targets unproductive assets, with

[62] Tippet, B., Wildauer, R., Onaran, Ö. (2021) The case for a progressive annual wealth tax in the UK. Greenwich Papers in Political Economy
[63] Advani, A., Chamberlain, E., Summers, A. (2020) A Wealth Tax for the UK. Final Report for the Wealth Tax Commission
[64] Daly, S., Loutzenhiser, G. (2020) Valuation. Wealth Tax Commission
[65] Sandford, C., Willis, J., Ironside, D. (1975) An Annual Wealth Tax. London: Heinemann Educational Publishers for the Institute for Fiscal Studies

overall economic productivity improving when unproductive assets have to be disposed of as a result of the wealth tax.[66]

Critics might argue that wealth taxation would inevitably lead to vulnerable older people having to sell their homes in order to pay a wealth tax. This problem is likely to be over-estimated as research demonstrates that only 1,819 single adults above state pension age would be considered to have low liquidity to pay a wealth tax if the threshold was set at £1 million, and this number would be zero if the threshold was set at £2 million, i.e. they have enough liquid assets or sources of income to call on.[67] There are also a myriad of options to help those who hold large amounts of property wealth but have low levels of income, such as the Rent-a-room scheme. It exists to help people to take in lodgers and benefit from the tax-free income paid in rent by the lodger. Not only would this reduce liquidity issues, but it also highlights the benefits of a wealth tax in improving the use of assets, and in the case of taking in lodgers, it would also contribute to tackling the housing crisis which is highly related to the issue of under-occupation.[68]

5.2.3. A flat rate or a progressive rate

Policymakers will also face the question of whether to impose a flat tax rate or a progressive rate structure when designing a wealth tax. This question matters in terms of how to balance the goal between raising revenue and reducing inequality intra-generationally and intergenerationally. If reducing inequality is seen as a primary concern, then policymakers might choose high rates that progressively increase since studies demonstrate that returns on wealth are consistently higher for higher levels of wealth.[69]

It is worth noting that a wealth tax can only reduce inequality (rather than merely slowing its pace of growth) if rates are set at a level that matches returns to wealth. Using a global sample, research has shown that a tax rate of 6.2% for wealth over £4.1 million would be necessary to keep the wealth of such individuals constant.[70] On the other hand, the global sample shows that high rates could be imposed without negatively affecting the total wealth of those liable for the tax.

[66] Guvenen, F., Kambourov, G., Kuruscu, B., Ocampo, S., Chen, D. (2019) Use it or lose it: Efficiency gains from wealth taxation. Working Paper Series. Washington, DC: Washington Center for Equitable Growth
[67] Loutzenhiser, G., Mann, E. (2020) Liquidity issues: solutions for the asset rich, cash poor. Wealth Tax Commission
[68] Lutz, S. (2023) Bring back the lodgers: How the UK housing stock could be used to combat the rental crisis. London: The Intergenerational Foundation: www.if.org.uk/research-posts/bring-back-the-lodgers-how-the-uk-housing-stock-could-be-used-to-combat-the-rental-crisis
[69] Fagereng, A., Guiso, L., Malacrino, D., Pistaferri, L. (2019) Heterogeneity and Persistence in Returns to Wealth. Research Council of Norway and Washington Center for Equitable Growth
[70] Oxfam (2023) Survival of the richest: How we must tax the super-rich now to fight inequality

5.2.4. Assessing outward migration risks

The concern of outward migration, or a wealth drain, is often cited as an argument against a wealth tax in public discourse. However, this concern is often overestimated, as there is a lack of empirical evidence to support the argument that outward migration would increase or levels of saving would slow because of the introduction of wealth taxes.[71] On the other hand, regional/internal migration due to varying rates within a country has accounted for approximately one-third of the behavioural responses to annual wealth taxes in Spain and Switzerland, suggesting that devolution of wealth taxes may lead to problematic secondary effects within a country.[72] The ability of HMRC to detect undeclared assets held offshore has increased in recent years, but HMRC would be wise to invest more resources into auditing in order to find undeclared assets and reduce the risk of underreporting, both of which could reduce tax revenue substantially.[73]

5.2.5. Exemptions and reliefs

Although it might be appealing to policymakers to respond to the pressure of particular interest groups to include exemptions or reliefs for specific asset types, any exemptions might have large negative impacts. Differential treatment of assets generally leads to large behavioural responses, thus minimising the intended impact of the wealth tax to raise revenue and reduce wealth inequality.[74] Differential treatment of asset types would also result in both vertical and horizontal unfairness, as people who are equally wealthy would incur different tax liabilities, while the very wealthiest are the most likely to benefit from certain assets being exempt, thus incentivising avoidance.[75]

A well-designed, intergenerationally fair wealth tax should therefore: treat all assets equally; set thresholds at rates which take liquidity constraints into consideration; maximise revenue while minimising administrative costs and burdens; and utilise a progressive rate structure.

5.3. Options and revenue estimates

This section presents estimates of different rates and thresholds that could be used to raise between £17 billion and £22 billion annually. The figures used have been retrieved using the Wealth Tax Commission Tax Simulator, which is based upon the extensive distributional modelling analysis undertaken by Advani, Hughson, and Tarrant.[76] The underlying data used for the distributional modelling is from the Wealth and Assets Survey 2016–2018, linked

[71] Advani, A., Tarrant, H. (2020) Behavioural responses to a wealth tax. Wealth Tax Commission
[72] Ibid.
[73] Advani, A., Chamberlain, E., Summers, A. (2020) A Wealth Tax for the UK. Final Report for the Wealth Tax Commission
[74] Advani, A., Tarrant, H. (2020) Behavioural responses to a wealth tax. Wealth Tax Commission
[75] Advani, A., Chamberlain, E., Summers, A. (2020) A Wealth Tax for the UK. Final Report for the Wealth Tax Commission
[76] Advani, A., Hughson, H., Tarrant, H. (2020) Revenue and distributional modelling for a wealth tax. The Wealth Tax Commission

with the Sunday Times Rich List in order to capture the wealth of high-net individuals and non-UK residents who are underrepresented in surveys but would nonetheless have UK tax liabilities in the case of a wealth tax.

The examples presented incorporate the lessons from historical examples of wealth taxes and are coherent with principles of efficient tax design. Therefore, the thresholds are set at relatively high levels to minimise administrative costs and liquidity constraints, avoid impacting the young, poor and middle-classes, while rates progressively increase with levels of wealth in order to ensure that those with the broadest shoulders pay more.

BRR refers to the behavioural response rate, indicating how much the average individual would reduce the wealth held or reported, encompassing all forms of avoidance or evasion responses, such as gifting, under-reporting, migration and offshore evasion. A low BRR is possible, but the medium BRR can be considered the most realistic revenue estimate. The following estimates show how much could be raised using three different progressive wealth tax designs:

Option 1: Large tax base with low tax rates

Threshold	Rate	Initial Set Up Cost	Annual Admin Cost	Low BRR (7%)	Medium BRR (12%)	High BRR (17%)	Taxpayers (No)
£1 million	0.4%	£579m	£454m	**£18bn**	**£17.4bn**	**£16.8bn**	3,004,000
£5 million	0.6%						
£10 million	0.8%						

Option 1 would raise between £16.8 billion and £18 billion annually by taxing wealth above £1 million at 0.4%, wealth above £5 million at 0.6%, and wealth above £10 million at 0.8%. Under this option as many as three million individuals would be liable to pay the wealth tax, but the average amount owed would be small due to the low rates.

Option 2: Medium tax base with moderate tax rates

Threshold	Rate	Initial Set Up Cost	Annual Admin Cost	Low BRR (7%)	Medium BRR (12%)	High BRR (17%)	Taxpayers (No)
£2 million	0.8%	£579m	£104m	**£19.4bn**	**£18.3bn**	**£17.1bn**	626,000
£5 million	1%						
£10 million	1.2%						

Option 2 has slightly higher thresholds than Option 1 and would raise between £17.1 billion and £19.4 billion annually by taxing wealth above £2 million at 0.8%, wealth above £5 million at 1%, and wealth above £10 million at 1.2%. The tax base would be formed by approximately 626,000 individuals while the rates remain low to moderate.

Option 3: Small tax base with higher rates

Threshold	Rate	Initial Set Up Cost	Annual Admin Cost	Low BRR (7%)	Medium BRR (12%)	High BRR (17%)	Taxpayers (No)
£5 million	1%	£579m	£12m	**£21.7bn**	**£19.2bn**	**£16.8bn**	83,000
£10 million	2%						

Unlike the previous options, Option 3 only targets the wealth of the very wealthy, meaning that the tax base would only include approximately 83,000 individuals. Since the thresholds are high, starting at £5 million, the rates are instead higher than the rates of Option 1 and Option 2. Option 3 would raise between £16.8 billion to £21.7 billion annually by taxing wealth above £5 million at 1% and wealth above £10 million at 2%.

The benefit of Option 1 is that rates could be kept low since the tax base is large, because all individuals with wealth above £1 million would be liable to pay the tax. However, the large tax base, combined with low thresholds and low rates would instead mean that administration costs take up 2.6% of total revenue. At the other end, the benefits of Option 3 are that it would only impact a very small number of people and significant sums could be raised with a negligible annual administration cost as the tax base is formed of only 83,000 individuals. Furthermore, Option 3 would have a more tangible impact on slowing down increasing wealth inequality than the other options due to its higher rates for higher thresholds. On the other hand, Option 3 is highly dependent on a small number of very wealthy and influential individuals, whereas the tax base is not as secure or stable since incentives to alter behaviour or lobby for exceptions and lower rates would be higher given the higher rates.

Therefore, Option 2 strikes a balance between Option 1 and Option 3. Since the annual administration cost increases by £350 million if the threshold is lowered to £1 million from £2 million, it could be considered better tax design to instead apply progressive rates above £2 million to avoid the high annual cost of administering a tax that would see many more people with a tax liability. Furthermore, a threshold of £2 million would make sure that no middle-class people, primarily holding housing and pension wealth, would be liable. The progressive structure would also do more to slow the pace of increasing wealth inequality than Option 1, without relying on a very small tax base. If the threshold was set at £2 million, then 75% of taxpayers would be above 55 years of age, and only about 1% would be under 35 years of age.[77] Additionally, Option 2 would also minimise the issue of liquidity constraints, as no single adult over 65 years of age would face liquidity constraints at a threshold of £2 million.[78]

Although the instances of liquidity constraints would be close to zero for Option 2, the implementation of a wealth tax could also provide alternative payment methods for those who can prove that they face low liquidity. For example, in such instances the policy could allow for HMRC to take a charge on the value of the property at market interest rates or by deferring payment with interest accruing for a specified time period. However, such instances would be few, and should only be allowed by appealing to the HMRC and proving that their special circumstances require it.

The revenue from a wealth tax could be used to fund spending ambitions or to lower the taxation burden on young people and income from work. For example, any of the proposed design options would raise enough to cover the £14 billion annual cost of raising the personal tax-free allowance to £13,800 and increasing the basic rate income tax limit to £55,300.[79] Alternatively, all of the policy options would also cover the £16 billion cost of lowering the tax rate by 1.25 percentage points at each income tax rate.[80] All of the policy options would cover the cost of raising the personal allowance to £13,800 at a cost of approximately £9 billion annually, which would leave several billions to spare for the government. A wealth tax could also be used to abolish tuition fees, which would cost just below £10 billion annually.

The figures given present a valuable and accurate estimate of how much would have been raised in 2018 had a wealth tax been imposed. However, asset prices have risen sharply since 2018, which was the last year of the data used for the distributional analysis. Although the amount that would be raised in 2023/24 cannot be calculated for certain until more recent wealth data is published, inflation can be used as a proxy to calculate an estimate. When accounting for inflation, the medium estimate for how much would be raised in 2023/24 would be approximately £21.6bn for Option 1, £22.7bn for Option 2, or £23.8bn for Option 3.

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[77] **Advani, A., Hughson, H., Tarrant, H. (2020) Revenue and distributional modelling for a wealth tax. The Wealth Tax Commission**
[78] **Loutzenhiser, G., Mann, E. (2020) Liquidity issues: solutions for the asset rich, cash poor. Wealth Tax Commission**
[79] **HMRC (2013) Direct effects of illustrative tax changes. Updated June 2023**
[80] **Advani, A. et al. (2021) Fixing National Insurance: A better way to fund social care. Cage Policy Briefing No. 33. Warwick: The University of Warwick**

6. Conclusion and policy recommendations

We are living through a polycrisis with housing affordability worsening, the number of children in poverty increasing, the risk of ecological breakdown growing by the day, and wealth inequality increasing. Wealth inequality has a direct negative impact on many of the issues facing young people today, in terms of worsening economic growth, unaffordable rents, financial instability and insecurity, to name a few. Furthermore, the feedback loops of wealth inequality mean that if nothing is done, the situation will certainly continue to worsen for future generations. Fiscal pressures are so high that the tax burdens pushed on to younger people and low- and middle-income workers are becoming increasingly unsustainable. As real growth slows, wealth has continued to grow in relation to national income but remains essentially untaxed. New forms of government revenue are desperately needed but young people and low- and middle-income workers cannot continue to carry a disproportionate burden. Young people are already struggling with low spending power, stagnating real wages, unaffordable rents and the burden of student loans. It is intergenerationally unfair to place a disproportionate tax burden on income from work, on which the vast majority of young people and low- and middle-income earners rely, while not taxing income from wealth at the same rates and hardly taxing wealth at all, despite the massive increase in overall wealth and wealth inequality.

The tax system needs to be reformed so that it can raise the necessary revenue that governmental spending ambitions require as our population ages without unfairly burdening young people and those receiving their income from work. It is a win-win for all generations by ensuring that present and future spending on health and social care is sustainable while reducing the tax burden on the young and poor. Instituting a wealth tax would therefore be a beneficial addition to the tax system, making it more progressive and intergenerationally fair. Furthermore, even a moderate wealth tax instituted in the present would serve as an instrument which future governments can uprate or downrate in accordance with changing spending ambitions. Thus, using a wealth tax to address inequality is not merely about creating a tax system that is fair, but part of a necessary reform to make the economy and the tax system work for everyone, independent of age or wealth.

Policy recommendations:

- **Institute an annual progressive wealth tax, taxing wealth above £2 million at 0.8%, above £5 million at 1%, and above £10 million at 1.2%**
- **Apply the annual wealth tax equally on all forms of wealth, including property wealth, financial wealth, physical wealth, pension wealth and business wealth**
- **Use all or part of the tax revenue raised to lower the taxation burden on young people by increasing the tax-free personal allowance. Use any remaining revenue to lower the taxation rates on income from work or to fund intergenerationally fair policies, such as building more affordable housing, investing in renewable energy and green public transport, or abolishing tuition fees**

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