TAXING PERSONAL WEALTH

An Analysis of Capital Taxation in the United Kingdom—History, Present Structure and Future Possibilities

C.T. Sandford

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Volume 10

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Routledge
Taylor & Francis Group
LONDON AND NEW YORK

First published in 1971 by George Allen & Unwin Ltd.

This edition first published in 2019
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

and by Routledge
711 Third Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN: 978-1-138-56291-2 (Set)
ISBN: 978-0-429-48988-4 (Set) (ebk)
ISBN: 978-0-8153-4970-9 (Volume 10) (hbk)
ISBN: 978-1-351-10705-1 (Volume 10) (ebk)

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London · George Allen & Unwin Ltd
Ruskin House Museum Street

First published in 1971

ISBN 0 04 336034 3

Printed in Great Britain
in 10 point Times New Roman type
by Unwin Brothers Limited,
Woking and London

To my Wife Evelyn

Taylor & Francis

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Contents

Acknowledgments

I am very grateful to Bath University for the two terms of sabbatical leave, Autumn 1968 and Spring 1969, which enabled me to make more rapid progress with the research and the book. Part of this leave was spent studying the Swedish system of wealth taxation; and I acknowledge, with sincere thanks, the research grant from the Nuffield foundation to meet the expenses of this study visit. The many people in Sweden who entertained me and gave me the benefit of their knowledge and wisdom is too large for individual mention; but I should like to express particular thanks to the Swedish Institute for arranging much of my programme; to Mr Gösta Eckman, Head of the Legal Department at the Royal Ministry of Finance, for so freely making available to me the expertise of his department; and especially to Professor Göran Englund, University of Lund, for hospitality and friendship, for information and advice, for checking my text for innaccuracies and for keeping me up-to-date with subsequent developments in Swedish wealth taxation.

Much of this book is a development of ideas first published in 1965 by the Institute of Economic Affairs as a Hobart Paper, *Taxing Inheritance and Capital Gains*. I wish to thank Arthur Seldon, the Editorial Director, for the help and encouragement he gave me with that Paper and the Institute for permission to reprint the substance of chapter III of the original paper as section v of chapter 3 in this book. I am grateful to *The Banker* for allowing me to reprint, in Appendix A, material first published (with P. M. Wright) in that journal as 'Estate Duty: Inflation and Capital Gains', March 1969. I also thank Sweet and Maxwell Ltd for permission to reproduce, as section (iii), chapter 2, the substance of an article, 'Estate Duty versus Inheritance Taxation, 1894', from *British Tax Review*, January–February 1968.

I gratefully acknowledge the help of Mrs P. M. Wright who undertook the calculations for the Property Price Index (Appendix A). A number of friends and colleagues, Mr P. N. Dean, Mr John Hughes, Dr A. A. Tait, Mr M. J. Sargent and Mr D. J. Ironside, kindly read and commented on all or part of the typescript and I thank them, together with Mr J. F. Turner, the Manager, Estate Duties Investment Trust, who as well as reading part of the typescript, took considerable trouble to provide me with statistical data about EDITH. To exonerate all those who have given me their comments, I should no doubt add the usual affirmation. I alone am responsible for the opinions and the errors.

As far as possible I have acknowledged my debt to other authors in footnotes. To my former teachers, and to colleagues and students past and present, I am conscious of a debt none the less real for being imprecisely definable. I have a continuing obligation to Miss Muriel King for her own unique brand of secretarial efficiency. And it would be ungenerous not to thank my publishers for their forbearance despite a long overdue typescript.

September 1970. C. T. SANDFORD

Introduction

'The voluntary tax.' 'A tax paid by those who dislike the Revenue less than they dislike their heirs.' 'A tax on vice—the vice of clinging to one's property until the last possible moment.' These descriptions have been applied to the major capital tax in the United Kingdom—an estate duty with a nominal severity almost unparalleled, but amongst the easiest of death duties to avoid.

The main purpose of this book is to hasten the end of this inequitable absurdity. But there is another reason to reconsider the death duties in the United Kingdom. Not since Sir William Harcourt's reform of 1894 has their structure been comprehensively reviewed—and the reasons which led Harcourt to choose the estate duty form may no longer be valid, if indeed they ever were.

Two main interrelated developments separate the requirements of Harcourt's time from those of today: a change in effect and our understanding of it; a change in philosophy and the purpose implied by it. In 1894 when the maximum rate was 8 per cent, the tax could be met by economies in consumption which reduced private claims on current output, and the government could, and did, treat its yield as ordinary revenue to be used for current expenditure. Today, when the maximum rate is ten times that of 1894, the tax cannot be so met. Death duties are paid out of capital. Essentially they are concerned with the distribution of wealth. This recognition of their effect has been paralleled by a new philosophy and a new purpose. Since Harcourt's day society has become less willing to tolerate gross inequalities in the distribution of wealth, and the function of the tax is now to diminish such inequalities—which are particularly pronounced and obstinately persistent in Britain.

People differ on how far the equalizing process should be pushed; but few would disagree that the main purpose of a modern death duty is to do something towards evening out inequalities in the distribution of wealth. Death duties have singular advantages for this role; no other form of capital tax can achieve the same effect with less antagonism and less economic disturbance.

The grossest anomalies of the estate duty can be corrected by reducing the rate whilst making the duty effective by means of an integrated gifts tax; but more efficacious in furthering the equalizing purpose would be a switch from estate duty (a tax on the corpus of the estate regardless of its dispersion) to inheritance tax (a tax on individual legacies regardless of the size of estate from which they come). The particular form of inheritance tax recommended is an 'accessions tax'—an integrated inheritance and gifts tax by which duty is levied on the cumulative receipts of legacies and gifts throughout a life-time.

A reformed death duty must be considered in the context of wealth taxation as a whole. The past decade has seen much discussion of an annual wealth tax. The author recommends the use of an annual wealth tax not, like the death duty, as a means of reducing inequalities in wealth holding, but to encourage efficiency. With due caution, because of the administrative difficulties, he advocates a wealth tax at modest rates to reduce or replace surtax and abolish the differentially higher rates of income tax on 'unearned' income.

In short, the proposals are an attempt to change the situation in which, to use the vivid language of Oliver Stutchbury in a recent pamphlet, our tax system is relatively easy on the *conservers* of wealth (those who have inherited or been given it) and 'mercilessly severe on the *creators* of wealth (e.g. managers who have had to make their own money); 'this is to put the weight of the tax burden the wrong way round if the country's efficiency is to be promoted.'[1]

These main recommendations are complemented by more limited proposals applicable under any form of death duty; and suggestions for more radical reform—to enlarge the scope of an accessions tax by including other non-income receipts such as gambling winnings and golden handshakes; and to introduce a negative or reverse wealth tax.

Throughout the book alternative reforms are considered, so that policy guides are available to those whose reform aims are more modest or whose judgments differ from those of the author.

Whilst the main recommendations inevitably reflect value judgments, the author believes that his conclusions are well grounded in the history and the analysis. Fiscal historians, who normally shun an economic treatise, may find something of value in the extended treatment of the history of the death duties and their effects on land ownership. Economists of various specialisms may be attracted by the detailed analysis of some aspect of the subject, such as the effect of estate duty on agriculture and landownership or on the private industrial business. The Swedish wealth tax is often quoted as a model for this country, and the full and up-to-date account and critique of it, a product of the author's study visit to Sweden, may be of particular interest to some. Four detailed appendices of statistical data and calculations support the argument of the main text.

Inevitably the question must be asked: 'What chance of adoption,

[1] *The Case for Capital Taxes*, Fabian Tract 388, December 1968.

in whole or in part, has this radical scheme of reform?' The nub is the change in form of death duty from estate duty to inheritance tax. This idea is not new, and its advocates have included economists no less distinguished than Professor Lord Robbins[1] and Professor James E. Meade.[2] Of the political parties, although it was a Liberal Chancellor who introduced estate duty, paradoxically the Liberals have been the first officially to support the change. By 1938, if not before, in *Ownership for All*, they advocated an inheritance tax instead of estate duty, and they have re-affirmed this preference in subsequent election manifestos. As for a wealth tax, the party has shown interest but shunned commitment. The Labour Party, perhaps surprisingly in view of its declared concern for equality, has never endorsed the proposal for an inheritance tax; but it may do so yet, for the most eminent of its recent tax advisers, Professor Nicholas Kaldor, has stated a clear preference for it.[3] By contrast a wealth tax has had frequent mention in recent Labour Party and TUC discussions and literature, but a wealth tax which would have to be met from capital —not the alternative to surtax and the unearned income differential that we have advocated here. Despite the talk, the Party has given no undertaking to introduce a wealth tax in any of its election manifestos of the sixties. Again, however, the ubiquitous Professor Kaldor can be found to have advocated a modest wealth tax as an alternative to the higher rate of tax on income from property.[4] Experience suggests that the Labour Party is more extreme in words than in deed, so that this more modest form of wealth tax might yet come to fruition under them.

What of the Tories? In a party with a respect for tradition it may count for much that some of the most distinguished Conservatives of all time—Lord Randolph Churchill, A. J. Balfour, Sir Winston Churchill—have favoured the inheritance tax. The change ought to be approved to promote the Conservative ideal of a 'property owning democracy'; as indeed might a negative wealth tax, by which some of the income benefits of the welfare state would be replaced by lump sum benefits leaving responsibilities and initiative in the hands of individuals. For a wealth tax the Tories have shown no enthusiasm. But perhaps this is because their image of it has been that tauntingly dangled before them by the Labour Party. They need to be reminded that West Germany as well as Social Democratic Sweden has an

[1] 'Notes on Public Finance', *Lloyds Bank Review*, October 1955.

[2] *Efficiency, Equality and the Ownership of Property*, Allen & Unwin, 1964.

[3] 'The Reform of Personal Taxation,' *Essays in Economic Policy*, vol. I, Duckworth, 1964, p. 213.

[4] *Ibid.*, p. 213.

annual wealth tax. Indeed, such a tax as we have advocated is precisely in line with the declared Conservative objective of reforming the tax system to reduce the disincentive effects of high income tax and so increase individual effort and enterprise. The Tories have thought to achieve this aim partly by cuts in government expenditure allowing tax reduction and partly by a transfer from income to indirect taxes. Yet cuts in government expenditure are difficult to make; and, besides its likely regressive consequences, the price rises from a switch to indirect taxes are particularly unwelcome in a situation of cost inflation; the more so when entry to EEC brings the prospect of further large price increases. In these circumstances, is it fanciful to believe that the Tories may be led to see the merits of a modest annual wealth tax to ease the burden of income tax? And its adoption would bring a Disraelian bonus—the delight of 'Dishing the Whigs'. Who knows?

Part I

THE TAXATION OF WEALTH

Chapter 1

Why Tax Wealth?

DEFINITIONS AND SCOPE

What do we mean by a wealth tax? A learned judge in a famous judgment once defined an income tax as a tax on income; similarly a wealth tax is a tax on wealth; more usefully, it is a tax levied on the capital value of wealth which may or may not be paid out of wealth, i.e. it may be met from a person's accumulated saving or from his income.

But what is wealth? It is used in this volume to mean the whole generality of net assets, i.e. assets minus liabilities. Our definition thus excludes property taxes of a kind levied on gross value or/and on one kind of property only (for example, real property). True, some kinds of assets may be excluded from the scope of any particular wealth tax—but they figure as specific exemptions to a tax which is intended to be general in its application.

Our concern is with personal wealth taxes, i.e. taxes levied on the value of the net assets of individuals not corporate bodies. A few of the annual wealth taxes in existence are levied both on corporations and on individuals, but this is a form of double taxation usually condemned because the same assets are taxed both in the hands of corporations as real capital and in the hands of individuals as share values. Also capital gains tax may be paid on gains in the assets of corporations. But we shall not here be analysing wealth taxes on corporate bodies. The dividing line in practice is not entirely clear cut. It is in accordance with the principle of a personal wealth tax to supplement an annual levy on the net wealth of persons with a tax on undivided estates, and on the corporate assets held by foreigners in a country. In neither of these cases does the levy of a wealth tax other than on persons result in double taxation.

The term capital could be substituted for wealth in our usage. There is perhaps a marginal preference for wealth because wealth is more often thought of as a store to be drawn on for future consumption and is associated more with persons, whereas capital is more often regarded as a stock for future production and is associated more readily with corporations. But both are different ways of looking at what are essentially the same assets. Another reason for preferring 'wealth' is that most of the recent discussion in the United Kingdom about this form of taxation has tended to use wealth rather than capital and it is convenient to keep to current usage unless there is a good reason to overthrow it. But essentially in this volume we use wealth and capital synonymously.

By taxes on personal wealth we mean, then, taxes which are levied on the capital value of personal net assets of all kinds; unless specifically exempted, the assets subject to tax thus include stocks and shares, quoted and unquoted; the business assets of partnerships and unincorporated businesses; bank balances; real property including houses and the capital value of rights in property; personal chattels such as cars, furniture, works of art, boats, horses, jewellery. It is normal for the state to specify some minimum sum below which wealth tax is not levied.

Forms of Wealth Tax

Forms of tax sometimes referred to as wealth or capital taxes are annual net wealth tax (which Britain does not have but which has been the subject of much recent discussion); death duties (currently taking the form of estate duty in the UK); gift taxes; capital gains taxes; stamp duties and capital levies.

The first three meet our definition without question. Capital gains taxes are more borderline; we shall examine in chapter 7 whether capital gains taxes should not properly be considered as taxes on income. In the United Kingdom short-term gains are treated as income for tax purposes, while long-term gains are taxed on a separate basis; however regarded, long-term gains taxes are so bound up with the other wealth taxes—death duties, annual wealth tax, gift tax—that no attempt to consider the structure of wealth taxation in a country could be complete without an examination of them. We shall therefore briefly examine gains taxes; particularly the tax on long-term gains. Stamp duties are different; in the United Kingdom those relating to capital consist of a motley variety of duties levied on the gross value of various properties at the time of transfer. In many ways they are more akin to taxes on outlay than on capital. They are not an essential part of the fabric of the system of capital taxation of a country and we do not consider them here. Capital levies have more claim to inclusion. The genuine *capital* levy (as distinct from the pseudo levy on investment income like the 'special charge' in the 1968 UK budget) meets our definition: it is intended as a once and for all levy on the value of the whole generality of net assets. After the First World War, serious consideration in Britain and elsewhere was given to the idea of a capital levy, especially as a means of reducing the national debt. But a levy has lost most of whatever attraction it had for this purpose. High rates of income tax have much reduced the extent to which a levy would relieve debt charges as there would be such a loss of income tax from interest on the debt; meanwhile the burden of debt interest has in turn been reduced by inflation. A major levy with the uncertainties it would cause, the depressing effect on asset prices, and the immense problems of a valuation which would have to be carrried out with great rapidity if changing asset values were not to cause gross inequities, is not now being advocated in the UK by any major interest. This is one reason for omitting it; another is that we *do* consider an annual wealth tax of such a size that it must necessarily be paid from capital; and, although in a milder form, the considerations which apply to such a heavy annual wealth tax are almost precisely similar to those applying to a once and for all levy.

Thus, in this volume we are concerned with death duties, annual wealth taxes, gift taxes and taxes on long-term capital gains.

We first examine and analyse most fully, death duties. This prior and most detailed treatment of the death duty is justified both because our particular concern is the capital tax system of the United Kingdom and as there has been a continuous history of death duties in the UK since 1694 there is much material to consider; and because death duties are likely to continue to form the core of any new structure of wealth taxation. Despite difficulties and disadvantages death duties have singular merits as a form of wealth tax. Payment is easier because they are levied at a time of transfer of wealth. The taxation of inherited wealth has a special moral attraction as compared with the taxation of wealth which is a result of the taxpayer's personal accumulation. Death duties are probably more readily acceptable to taxpayers and less damaging to incentives than an annual wealth tax of equivalent yield. The problems of administration associated with wealth taxes are minimized because death duties are levied at a time when an inventory of the property is required anyway for other purposes than taxation and only a proportion of wealth falls liable for death duty in any one year;[1] thus the problem of valuation is reduced to manageable proportions.

[1] In 1967–8 in GB £1,739m. net capital value of estates passed through the hands of the Estate Duty Office of which £1,376m. consisted of estates over £5,000 (then the lower limit for tax); the estimated net total wealth for GB 1967 was £83,600m. of which £59,400m. was in estates over £5,000. (Tables 130 and 139, *Report of the Commissioners of Inland Revenue*, No. 111 (Cmnd 3879, Jan. 1969).

Some clarification on the terminology of death taxation is necessary. We use the term 'death taxes' or 'death duties' to apply to any taxes levied on the transfer of properties as result of a death. An 'estate duty' is a form of death duty levied on the total property left by the deceased regardless of its distribution amongst heirs. The term 'inheritance tax' is used in its strict rather than its general sense to mean a tax on what is inherited, i.e. a tax on what the beneficiaries receive, regardless of the size of the estate from which it comes. A 'legacy duty' and a 'succession duty' are generally used synonymously and are inheritance taxes; but when we consider the British legacy duty (1780–1949) and succession duty (1853–1949) we have to distinguish between them because, broadly speaking, the legacy duty applied only to personal property and the succession duty to real property.

Along with death duties we consider gift taxes. A *form* of gift tax grew up with death duties in this country and first appeared in 1881, under the name of account duty, as an adjunct to the death duties, applying initially to gifts made within three months of death. At the time of writing, since the 1968 budget, gifts made within seven years of death are taxed as part of the estate duty provisions. There has also been another element of gift taxation in the UK since the introduction of the long-term capital gains tax in 1965 by which gifts counted as 'realization'. Thus, the capital gains element, if any, in gifts is now taxed. Because of the way the so-called gifts inter vivos provisions have been linked historically with death duties in the UK, and because we shall argue that no reform of death duties would make sense without a comprehensive gift tax, we shall examine gift taxes mainly in chapter 4 when we consider the possibilities of death duty reform.

From death duties and gift taxation we turn to consider the annual wealth tax. To try to give realism to our study we look not only at the theoretical considerations for and against an annual wealth tax, but also at the tax in practice, examining closely the Swedish wealth tax, the example most often quoted by advocates of a wealth tax in the UK.

In our penultimate chapter, we consider in somewhat less detail the capital gains tax. The brief history of this tax in the UK gives us little experience on which to draw in this country and features of gains taxes elsewhere will be considered.

In the earlier chapters we suggest ways in which death duties might be reformed, consider the desirability of an annual wealth tax and how it might be introduced, and suggest modifications to the capital gains tax. In the final chapter, we examine the wealth taxes together and present a more radical scheme for reform which not only requires the integration of wealth taxes but develops the idea of a negative wealth tax. Taxation is a branch of political economy in which practical suggestions almost inevitably involve value judgments. Proposals to improve the individual wealth taxes may be accepted by some who may find the more radical proposals of the final chapter too much to swallow or who may consider them, though desirable, too difficult to implement. Hence, the dual approach to the issue of reform.

PURPOSES OF WEALTH TAXATION

Equity, Efficiency and Equality

Why tax wealth at all? Is it not sufficient for a State to confine its taxation to income (including corporate profits) and expenditure?

There are three main arguments for taxing wealth and one subsidiary argument. The latter is that of administrative efficiency; a wealth tax, by providing information on capital values, can act as a cross-check to the accuracy of the returns of that part of income derived from property and even as a check on income from all sources (e.g. is the taxpayer's income enough to have enabled him to have increased his assets as much as he has since the previous assessment?). It thus supports the income tax and helps to protect it from evasion.

The main arguments can be summed up under equity, efficiency and equality. By equity we mean what the tax economist generally refers to more precisely as 'horizontal' equity—the equal treatment of those of similar taxable capacity. Under efficiency we are concerned with the effectiveness with which resources are used—in particular minimizing the price distortion of taxation. Under 'equality' we consider the question of 'vertical' equity—how *differently* should people of different taxable capacity be taxed. At this point we shall consider the first two only briefly because subsequently we analyse their application in detail to the various kinds of wealth tax.

The equity argument is that we need a wealth tax to supplement income tax. Wealth yields benefits over and above the income derived from it. It gives its possessor security, a source of spending power to meet contingencies, or the opportunity for a spending spree. It provides additional economic opportunities to its possessor. In short, whether or not the wealth yields a money income, it confers upon its possessor an additional 'taxable capacity' which equity requires to be taken into account.

The second argument is that of efficiency in resource use. Briefly a wealth tax is likely to result in less disincentive effect than an income tax of equivalent yield because the tax base is related to past and not present effort. At the same time, to tax wealth irrespective of its yield (especially when the alternative to wealth tax is a higher income tax) may provide a stimulus to use capital as productively as possible.

Equality is here used as a convenient shorthand for a reduction of inequality. Perhaps the main argument for taxing wealth is to reduce inequalities in its distribution. These inequalities may arise from different rates of saving out of earned income. But, especially when rates of income tax are high, the biggest reason for inequality of wealth holding is differences in inherited wealth. Many of the inequalities in the distribution of wealth, perpetuated by inheritance, stretch far back into history, some with their origin in acquisition by conquest—which would not nowadays be thought to constitute a morally strong claim!

The argument for reducing inequalities in wealth distribution is moral rather than economic. It thus rests on a value judgment which not all would accept. Nevertheless, in principle, this purpose was accepted with Sir William Harcourt's estate duty in 1894, which was the first consistently progressive tax in the United Kingdom; and though not all Conservatives at that time agreed with the principle of progression, or graduation as they more generally called it then, all the main political parties today would accept that taxation should be used to diminish the inequalities of wealth and income in the community, though they differ in how far the process should be pushed and what form the redistribution should take.

There is no clear-cut theoretical formula to determine how far the process of evening out the distribution of wealth by taxation or other means should proceed. This is a matter of moral judgment and political and economic expediency. What is not open to doubt is the high degree of inequality in the distribution of wealth in the UK today. There is a long way to go before we need concern ourselves greatly about where the process of diminishing inequality should stop. But let us look at the evidence.

Distribution of Wealth in Great Britain

Official statistics on the distribution of personal wealth in Great Britain are published annually in the Reports of the Commissioners for Inland Revenue. Table 1.1, which provides an estimate for 1967, is derived from Table 139 in the 111th Report published in January 1969.

The method by which the estimate is compiled is important for assessing the validity of the statistics. The basic principle is that the sample of estates passing through the hands of the Inland Revenue in any one year because of possible liability to estate duty, is an accurate representation of all estates of each age–sex group. To obtain the number of estates and the total property in each property range possessed by each age–sex group in the *whole* population, the *sample* of estates and total property for each group and range is multiplied by the reciprocal of the mortality rates for that age–sex group. Supposing, for example, that in the year in question five estates in the range £100,000 to £200,000 totalling £800,000 owned by women aged 85 to 86 became liable to death duty. If the mortality rates for that year for women 85 to 86 were two hundred per thousand (one in five) then it is assumed that there were twenty-five (five by five) estates in the population as a whole amongst women 85 to 86 of a size £100,000 to £200,000 and that these estates together totalled four million pounds (£800,000 × 5). These calculations are carried out for each age–sex group and then the number of estates and aggregate size of the estates are totalled for each property range. Because mortality rates differ according to occupation, to try to increase the accuracy of the calculation the rates appropriate to managerial and professional classes (Registrar-General's social classes I and II) are used in the calculations for estates over £3,000 and rates midway between them and those for the population as a whole for estates under £3,000.

There are a number of difficulties and deficiences in this method of estimation. The figures do not cover the whole population; the Inland Revenue figures are derived from 'grants of representation' taken out as a result of a death and in more than half the deaths in 1967 no grant was taken out because the assets were small and of a kind which could be transferred without a grant. Some forms of property holding are omitted from the statistics, in particular settled property passing at the death of a surviving spouse and property held under discretionary trust. The method also is liable to give rise to sampling errors; for example, the total number of large estates is small and those large estates falling liable to death duty in any one year may not be representative; in particular, large estates possessed by those dying young may be unrepresentative for their age and sex group (for which the mortality rates are low and the reciprocals therefore high). There is a valuation discrepancy in that life insurance policies on the life of the deceased are valued for estate duty at the sum assured plus bonus, if any; but the grossing up of this valuation to obtain the wealth holdings of the population as a whole over-values the insurance policies of the living who would not be able to cash their insurance policies at as high a sum.[1]

The overall effect of the deficiencies is almost certainly that the figures under-estimate the degree of the inequality of wealth. Although the omission of the small amounts of wealth exaggerates

TABLE 1.1. *Estimated Total Net Wealth by Size of Holding in GB in 1967*

Numbers: thousands. Amounts: £ thousand million.

Range of Net Wealth		Wealth-holders		Wealth	
Over	Not Over	No.	%	Amount	%
—	1,000	5,398	31·2	2·8	3·4
1,000	3,000	5,273	30·5	9·8	11·7
3,000	5,000	2,966	17·1	11·6	13·9
—	5,000	13,637	78·8	24·2	28·9
5,000	10,000	2,177	12·6	15·3	18·3
10,000	15,000	620	3·6	7·6	9·1
15,000	20,000	270	1·6	4·8	5·7
20,000	25,000	157	0·9	3·4	4·1
25,000	50,000	279	1·6	9·9	11·8
50,000	100,000	109	0·6	7·5	9·0
100,000	200,000	37	0·2	5·1	6·1
Over 200,000		14	0·1	5·8	6·9
Over 5,000		3,663	21·2	59·4	71·1
Over 1,000		11,902	68·8	80·8	96·7
TOTAL		17,300	100·0	83·6	100·0

the degree of inequality in the figures, this is likely to be more than counter-balanced by discrepancies working in the opposite direction. Insurance policies are a much larger proportion of small than of large estates so that their over-valuation creates an appearance of

[1] These are not the only deficiencies; a fuller account of the statistical limitations is given in the *Report of the Commissioners of Inland Revenue*, No. 111, pp. 211–13. A number of the issues, including the validity of the mortality multipliers used by the Inland Revenue and some estimates of the size of the omitted items of property, are considered in J. Revell, *The Wealth of the Nation*, Cambridge University Press, 1967.

less inequality. Discretionary trusts in 1967 were one of the recognised means of estate duty avoidance and settled property is much more likely to occur in large than in small estates. Unofficial estimates of the distribution of wealth by J. Revell[1] and *The Economist*[2] paint a picture of a more unequal distribution of wealth than that of the Inland Revenue statistics.

TABLE 1.2. *Distribution of Personal Wealth in GB, 1967*

Cumulative ranges of net wealth £	Wealth Cumulative %	Wealth holders Cumulative %	Total Population Cumulative %
Over 200,000	6·9	0·1	0·03
,, 100,000	13·0	0·3	0·1
,, 50,000	22·0	0·9	0·3
,, 25,000	33·8	2·5	0·8
,, 20,000	38·7	3·4	1·1
,, 15,000	43·5	5·0	1·6
,, 10,000	52·7	8·6	2·8
,, 5,000	70·9	21·2	8·9
,, 3,000	84·8	38·3	14·4
,, 1,000	96·6	68·8	24·3
,, 0	100·0	100·0	100·0

Bearing this probable under-estimation of inequality in mind, let us examine the Inland Revenue statistics more closely. In table 1·2 we present the same information as in table 1·1 but in a form easier to assimilate. By reading horizontally across the table we can see what proportion of wealth is possessed by what proportion of wealth holders and what proportion of the total population. Thus, in round terms, over 20 per cent of the wealth is possessed by less than 1 per cent of the wealth holders and by 0·3 per cent of the population. Again, over half the wealth is possessed by 8 per cent of the wealth holders and under 3 per cent of the population. At the other extreme over 90 per cent of the population and almost 80 per cent of the wealth holders possess less than 30 per cent of the wealth; and 75 per cent of the population less than £1,000.

In interpreting figures of wealth concentration, we need to bear certain factors in mind. Thirty-eight per cent of the population in

[1] For example, J. Revell, *Changes in the Social Distribution of Property in Britain during the Twentieth Century*, a paper presented at the Third International Economic History Conference, Munich, 1965.

[2] 'Taxing Britain's Wealth: the Indefensible Status Quo', *The Economist*, January 15, 1966.

1967 were under the age 35 and little wealth holding would be expected from that age group. Even if inheritance were completely abolished and there were no big inequalities in income distribution we should expect quite substantial wealth inequalities in a community; wealth ownership is generally positively correlated with age because older people have had longer in which to accumulate. To put the same point in a different way, many of those who at one point of time rank as negligible wealth holders will, at a subsequent point (say, 20 years later) have become quite substantial wealth holders. Nevertheless, even when allowances have been made for these factors, the ultimate picture of wealth distribution in the United Kingdom remains one of marked inequality. The distribution of wealth is, indeed, more unequal than in the USA. The authors of a comparative study of income and wealth distribution in the two countries in the mid-1950's concluded: 'When we turn from a comparison of income distributions to a comparison of the distribution of capital, it is the British distribution which is more unequal than the American—and quite substantially so. More Americans directly own physical assets, such as their own homes, businesses, farms or other real estate. Even within the group of financial assets, the distribution is more unequal in Britain than in America.[1]

Some reduction in inequality of wealth distribution does appear to have taken place in the twentieth century. Estimates by Mr Revell[2] suggest that the proportion of personal wealth in England and Wales possessed by the top one per cent of the population over 25 fell from 69 per cent in 1911–13 to 42 per cent in 1960; that of the top 5 per cent fell from 87 per cent to 75 per cent over the same period. Mr Revell suggests four reasons for this trend. The growth of a salaried middle class which has been accompanied by a growing owner-occupation of dwellings and saving through insurance. Second, changes in land and other real property prices which fell during the twenties, lessening the concentration of wealth; but which, rising in recent years, have also paradoxically lessened concentration because of increased home ownership and because of the growing owner-occupancy in agriculture. Third, demographic factors, notably a tendency for the redistribution of wealth within the family to its younger members probably as a form of death duty avoidance by gifts inter vivos; and also an increase in the proportion of wealth held by women—probably because of inheritance from their hus-

[1] Harold Lydall and John B. Lansing, 'A Comparison of the Distribution of Personal Income and Wealth in the United States and Great Britain', *American Economic Review*, March 1959.

[2] *Ibid.*, table 6, p. 15.

bands resulting from increased female longevity. Finally, the fourth factor, the effect of estate duty.

Estate duty has had important indirect effects through its influence on the distribution of income; but its direct effects have been less than might have been expected in view of the very high rates which have applied for more than a generation in the United Kingdom. Wealth generates wealth because large wealth owners obtain a much higher return on their wealth than small wealth holders; a larger proportion of large wealth holdings is in the form of income-yielding investments and also large wealth holders can afford the best advice on where to invest, either for high yield or capital gains; thus it is not too difficult for estate reductions resulting from estate duty to be made good in a generation. Further, estate duty is widely avoided. Again, as we shall subsequently argue at length, the estate duty form of death duty is not that most appropriate for diminishing inequalities in the distribution of wealth.

THE PROBLEMS OF WEALTH TAXATION

If wealth taxes carry the merits we have outlined, promoting equity, efficiency and equality, they also pose problems. These are mainly two-fold. First, a possible detrimental effect on saving, affecting both the capacity of individuals to save and their incentive to do so. Second, the administrative effects of wealth taxes, most notably the problems raised by valuation; whilst valuation of some assets, such as quoted stocks and shares, raise no difficulties, valuing other assets except at a time of sale is difficult and costly, e.g. the valuation of real property, unquoted shares, the assets of unincorporated businesses, and personal chattels such as jewellery and paintings.

Both these problems are severe. There is some level of wealth taxation which, through its effects on private saving, would be incompatible with an expanding economy based in important part on private ownership of the means of production. The administrative problems are such that a wealth tax can never be a simple tax to administer nor one which can be entirely free from inequities. We shall examine these problems in subsequent chapters as we look in detail at the various forms of wealth tax.

A Comprehensive System of Wealth Taxation

The merits and problems apply to all wealth taxes but in different measure depending on the form and weight of the particular wealth tax. Thus, the equity argument applies most strongly to an annual wealth tax and the capital gains tax. If we wish to tax inherited wealth more heavily than wealth accumulated from personal effort, then death duties are the most important medium for satisfying this particular argument for equality. Similarly, both an annual wealth tax and a death duty may affect the willingness to save, but whilst the former might reduce private savings under-taken for a variety of motives, a death duty will only affect savings undertaken from a desire to bequeath. The administrative problems likewise apply to all wealth taxes but vary in severity according to the size, nature and frequency of the tax; a small annual wealth tax on large fortunes is easier to administer than a large annual tax with a low exemption limit and both are more difficult than a death duty which necessarily only affects a small proportion of wealth each year.

Because of this similarity of purposes and problems but with important differences arising from the nature of the particular kind of wealth tax, such taxes need to be reviewed together, to be considered as a coherent system. Because of the link between wealth and income, both because a wealth tax is a supplement to income tax and because it may be an alternative to a differentially high rate of tax on investment income, wealth taxes need to be viewed in the context of the tax system as a whole. Our final chapter is concerned particularly with this comprehensive approach to a system of wealth taxation.