

Top Income Inequality and Tax Policy

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A remarkable set of contributions, all live at <https://www.ifs.org.uk/inequality>

Chapter: Isaac Delestre, Wojciech Kopczuk, Helen Miller and Kate Smith

Commentaries/articles/interactions:

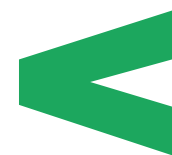
- Owen Zidar, 'Discussion of top incomes and capital tax policy'
- Arun Advani and Andy Summers, 'Measuring and taxing top incomes and wealth'
- Emmanuel Saez and Gabriel Zucman, 'Top incomes and tax policy: A modern progressive wealth tax'
- Edward Troup, 'A view from tax law and the policy-making coalface...'

Closely related to many other themes in the Review:

- What's Wrong with Inequality?, Labour markets and Inequality, The role of Firms, Globalisation and Trade, Immigration, Geography, Social Mobility, Welfare - transfers.

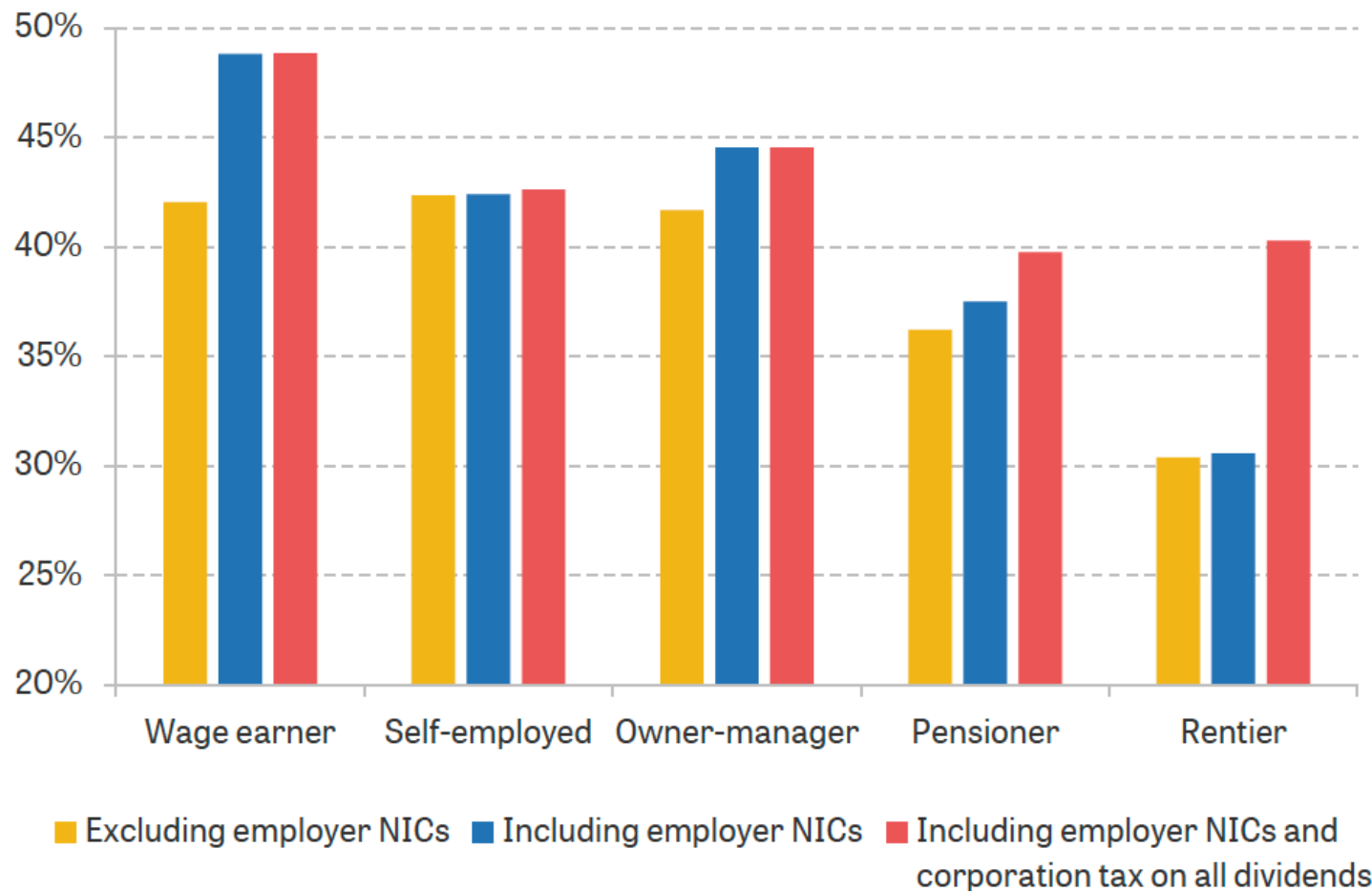
A picture of top incomes and top income taxation.....

Mean average tax rate by type of individual within the top 1% of UK adults, 2018–19

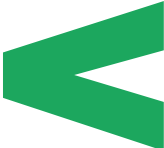


Inequality

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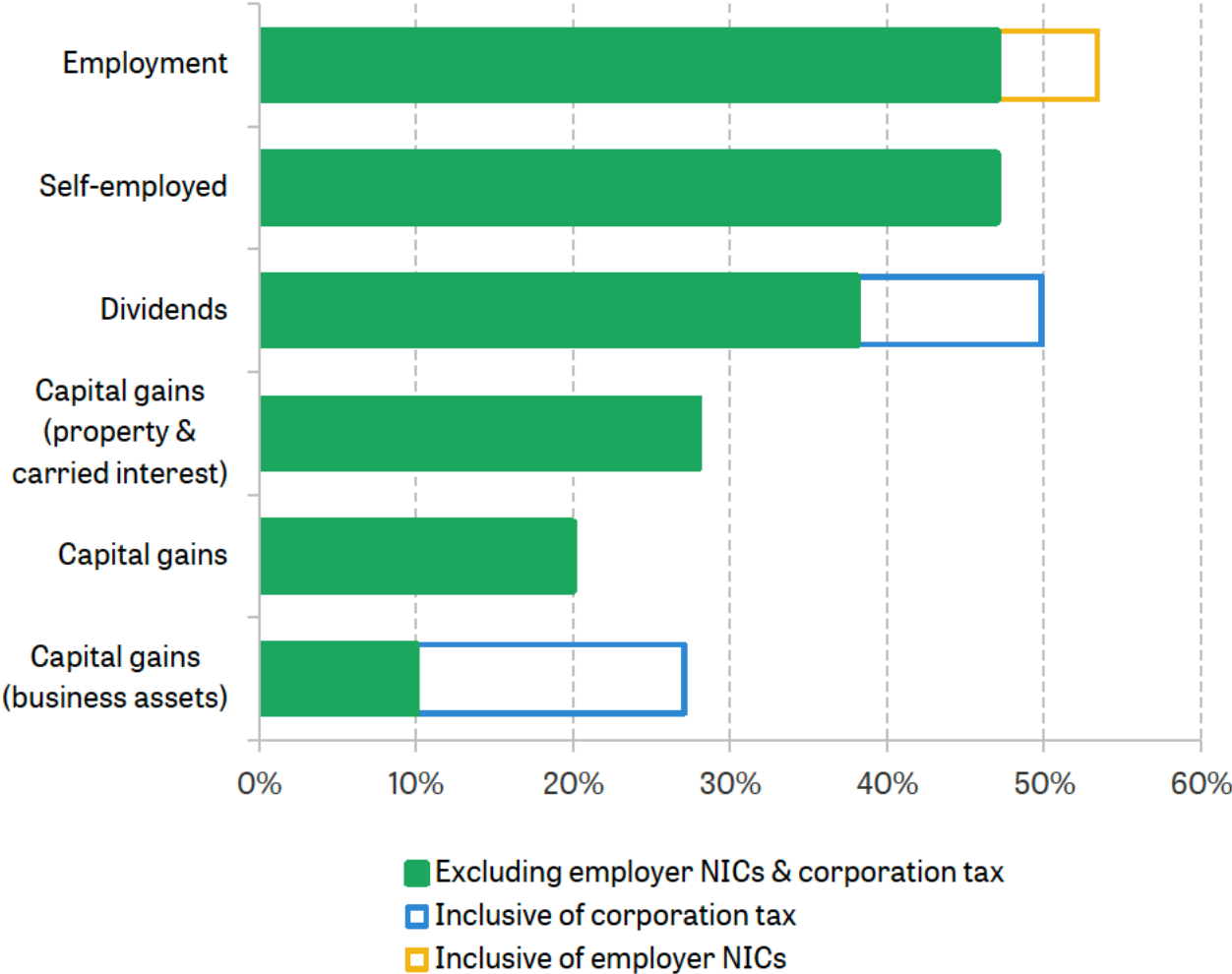


Top marginal statutory tax rates, 2021–22

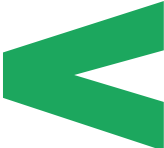


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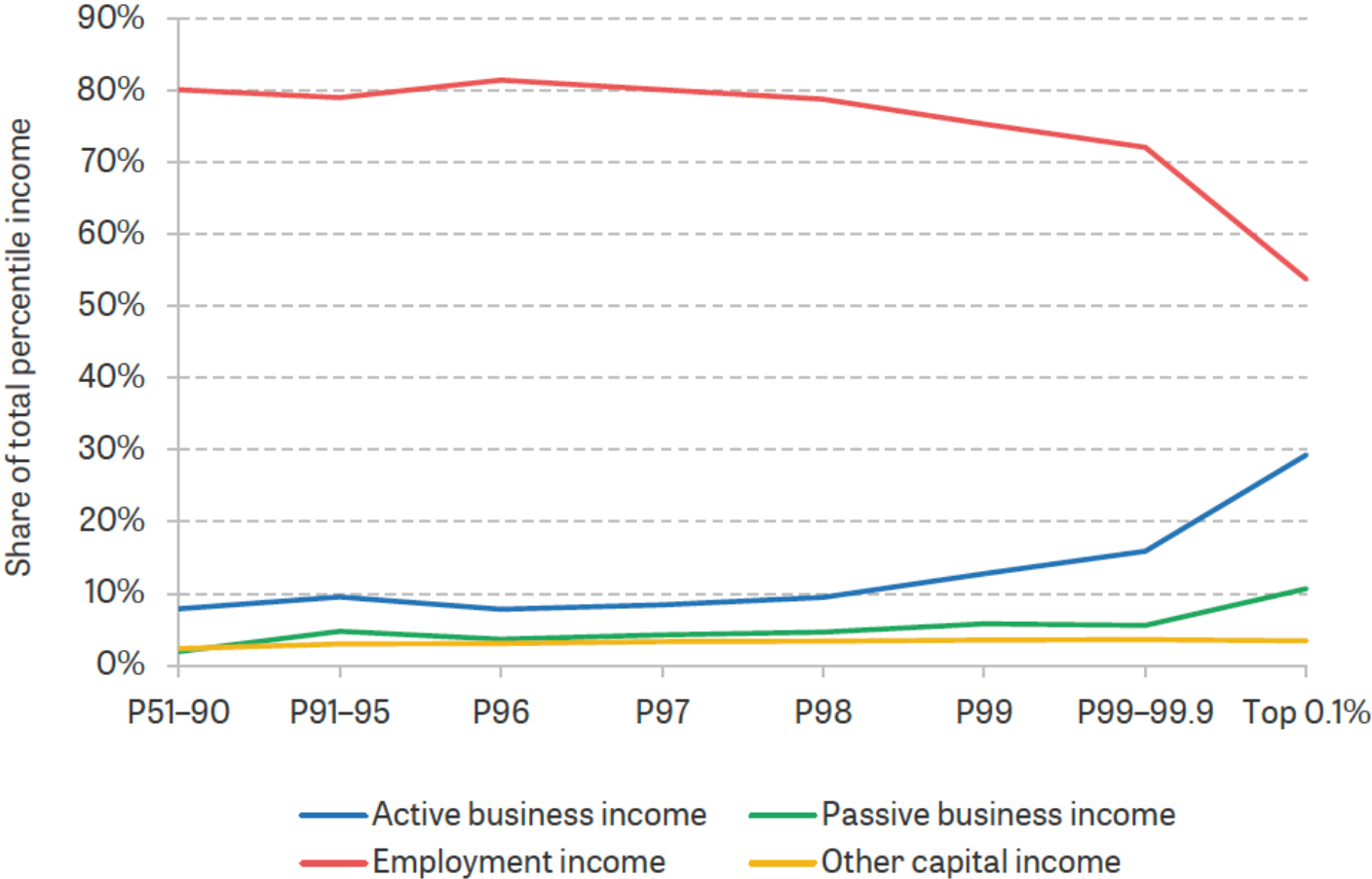


Income sources for the top 50% of UK adults, 2018–19



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Source: Chapter authors; Survey of Personal Incomes 2018–19.

A picture of top incomes and top taxes



- **Top income shares:** The top 1% receive 15% of fiscal income, more than the bottom 55% of adults combined, an increase from 6% in 1980.
- **Business owners:** The top 1%, especially the top 0.1%, are much more likely to get their income from active business ownership.
- **Tax rates:** Average rate on wage-earners in the top 1% is as high as 49%, but rate on company is 27% on income taken in capital gains (zero if gains are deferred until death.)
- **Shifting:** Rates vary widely by income source ‘inefficient’ changes in organisational form and shifting of labour income to capital gain and other forms of business income.
- **Financial services:** 29% of wage earners in the top 1%, and 44% in the top 0.1%, work in financial services, compared with just 5% across the top half of the income distribution.
- **Migrants:** The vast majority (90%) of the observed rise in the top 1% share over the past 20 years has accrued to migrants, mostly in financial services.
- **Tax havens:** As much as 8% (12%) of income at top 1% (0.1%) unrecorded in undeclared holdings in tax havens – but much of the income would likely accrue to non-doms.
- **Inheritances and gifts:** Transfers of wealth (inheritances and gifts) are estimated to total approximately £120bn per year in UK, around 6% of GDP.

A balance of policies



- **Inequality at the top matters:** In our poll 58% of Britons ‘worried’ that ‘the top 1% of earners have more money than the other 99% of people’
- **Capital gains:** Whether or not we include taxable capital gains in the measurement of top 1% income, capital gains taxation is a key issue.
- **Alignment of rates:** Moving toward the alignment marginal rates across labour income and capital income, including capital gains is a key policy recommendation.
- **Base and death:** Need base reform too and removal of capital gains tax uplift at death.
- **Choosing rates:** empirical evidence matters – behavioural elasticity on capital gains tax,..
- **Not just tax:** Cannot address all concerns through tax alone. Understanding drivers of top incomes matter for policy – property, innovation, market power, restrictive practices,...?
- **Entrepreneurial activity and innovation:** The top 1% reflect innovation rents and we don’t want to unduly tax innovation. But innovation (and agglomeration) rents can be too high.
- **Complementary policies:** Competition policy to promote entry and reduce incumbent rents. R&D tax credits and tax allowances. Education and skills to complement innovation
- **Missing innovators:** Children from top 1% many times more likely to become innovators.
- **Wealth tax:** Wealth transfers? A one-off tax? A annual wealth tax on ‘top millionaires’?