What don’t we know? (Yet)

Taxing Top Incomes

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The challenge of studying top incomes

• Improved access to tax data has led to huge progress in understanding over recent years

• But much work still to do:
  • (Individual) tax records still only a partial picture
    • More work needed to link tax data with other sources
  • Analysing behaviours of top earners/investors is hard, even with good data
    • Their tax affairs are complicated; needs input from tax lawyers/accountants as well as economists
Most existing research is based on **taxable income**…

**But this misses:**
- Capital gains (taxable and non-taxable)
- Unremitted foreign income of non-doms
- Tax-exempt investment returns (e.g. ISAs, VCTs)
- Inheritances and gifts
- Underreporting from non-compliance (incl evasion)

**Also misses unless/until paid out:**
- Retained corporate profits
- Returns on pension savings
- Returns retained in (some) trusts (not assigned to beneficiaries)
Example: capital gains

• Pre-tax inequality is higher including (taxable) gains
• Smaller difference between pre- and post-tax (measure of redistribution)

Advani & Summers (2020), Capital Gains & UK Inequality
(2) Behavioural responses

• Various ways people can respond to taxes:
  • How much to work; when to retire; whether to migrate; how much to save/invest, etc ("real" responses)
  • Timing of payments e.g. dividends, bonuses; income vs gains; income-shifting within the household, etc ("paper" responses)
• Non-tax specialists (media, politicians etc) tend to focus on or assume real responses, but paper responses are also important, especially at the top
Example: 50p reform

• Increase in top Income Tax rate from 40p to 50p (April 2010), then back down to 45p (April 2013)
  • “Strolling across the summit of the Laffer curve?” (Robert Chote, then Chairman of OBR)

• Difficulties estimating underlying response (and revenue effect) due to dividend forestalling (Browne & Phillips 2017)

• Lack of evidence on magnitude of specific responses
  • e.g. migration, pension savings, retirement, shifting from income to gains

• Distinguishing responses matters because some have easier policy solutions than others (e.g. don’t pre-announce!)
(3) Economic impacts

• If taxes cause top earners / investors to leave the UK, work less, invest less etc, what are the wider effects on the UK economy?

• How effective (value for money) are tax reliefs aimed at incentivising additional investment?
  • Lack of evidence even on who uses investment reliefs (and their target investments), let alone downstream impacts on innovation, employment, productivity etc

• Requires linking individual tax records with firm-level data (from taxes and other sources), plus suitable policy variation
Ongoing research

• Major programme of work over next 3-4yrs, funded by ESRC & Nuffield
• Economists working in collaboration with tax lawyers and practitioners
• Mainly using data accessed via HMRC Datalab
• Focus on top 1%, and within that top 0.1% (‘super-rich’)
• Aim to generate new evidence that can be used to inform policymaking
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