



**LUND UNIVERSITY**  
School of Economics and Management

**Should net wealth and property taxation be introduced in the  
United Kingdom?**

---

by

**Maroš Kravec**

Thesis submitted in partial fulfillment of the requirements for the degree of LLM Master's  
Programme in European and International Tax Law

2012/2013

26 May 2013

Supervisors: Cécile Brokelind and Åsa Hansson

Author contact information:

[marosko@gmail.com](mailto:marosko@gmail.com)

+46 709 788 797

## Acknowledgements

*'If you have a direction you will reach your goal!'*

**Unknown author**

I am sincerely and heartily thankful to my supervisors, Cécile Brokelind and Åsa Hansson, for the help and assistance they showed me throughout my thesis writing. I would never been able to finish my research without their excellent guidance, caring and help. Besides I would like to show my gratitude to friends, my family and particularly to my wife, Anna Kravec for her never-ending moral support.

***Maroš Kravec***

## **Abbreviation list**

ATED- Annual Tax on Enveloped Dwellings

EU- European Union

HMRC- Her Majesty Revenue and Customs

LVT- Land value tax

OECD- Organisation for Economic Co-operation and Development

SDLT- Stamp Duty land tax

TFEU- Treaty on the functioning of the European Union

UK- United Kingdom

VAT- Value added tax

## Table of Contents

Acknowledgements.....	2
Abbreviation list.....	3
1 Introduction .....	6
1.1 Background .....	6
1.2 Purpose.....	7
1.3 Methodology and Materials .....	8
1.4 Structure .....	9
1.5 Delimitations .....	10
2 Desirable features of a tax system .....	10
2.1 Efficiency .....	11
2.2 Equity .....	11
2.3 Administration and compliance costs .....	12
2.4 Tax avoidance .....	13
3 Current taxation system.....	14
3.1 Budget Deficit and Social inequality .....	14
3.2 Inheritance tax .....	15
3.3 Stamp Duty tax.....	17
3.4 Council tax .....	19
4 Net Wealth tax.....	21
4.1 Theoretical framework .....	21
4.2 Normative principles and theoretical approaches of tax design.....	22
4.3 Advantages and rationales of net wealth tax implementation.....	23
4.3.1 The ability to pay principle: Net wealth tax vs. income tax .....	23
4.3.2 The benefit considerations .....	24
4.3.3 Social control and fairer distribution of wealth .....	25
4.3.4 Positive effects on the economy .....	25

4.4	Negatives of net wealth tax implementation .....	26
4.4.1	Negative effects on the economy .....	26
4.4.2	Administrative costs and avoidance .....	27
4.4.3	Fairness considerations .....	28
4.5	Conclusion.....	29
5	Property tax.....	29
5.1	Theoretical framework .....	29
5.2	Advantages and rationales of property tax implementation.....	30
5.2.1	The ability to pay principle .....	30
5.2.2	The benefit considerations and redistribution.....	31
5.2.3	Positive effects on economy .....	31
5.3	Negatives of property tax implementation .....	31
5.3.1	Negative effects on economy.....	31
5.3.2	Administrative costs and avoidance.....	32
5.3.3	Fairness considerations .....	32
5.4	Conclusion.....	33
6	Discussion.....	33
6.1	Council tax vs. property tax .....	34
6.2	Wealth transfer taxes vs. net wealth tax .....	34
7	Concluding remarks.....	35
	Bibliography .....	37

# 1 Introduction

## 1.1 Background

In the current times of severe economic downturn of the world economy, high rise of unemployment and unseen austerity measures, governments around the world seek for acceptable solutions to support their deficit reduction strategies. Straightforward decrease of government expenditure is a politically more complex area since it commonly involves reduction of welfare and other public services. Governments hence tend to primarily focus on the increase of tax revenue. In this context, levying a tax on the stock of wealth and property becomes an especially appealing topic pushed further up to the top of political agenda. In conjunction to the public outrage against multinational companies such as Starbucks, Amazon and Google in the United Kingdom which are able through convoluted tax optimisation schemes reduce their tax bills to the minimum, heavier taxing of ‘rich’ occurs to be even more popular and is currently on debate.

Levying a tax on wealth always involves passionate debates. From one perspective, it supports redistribution of the wealth among people and creates fairer and more equal society.<sup>1</sup> Critics on the other hand see unjustified confiscation of private property through a multiple economic taxation, high administrative costs and argue that it has sufficient negative effects on the national economy. In addition, there are number of practical difficulties such as future pension rights or taxing a ‘human capital’.<sup>2</sup> Due to these conflicting perspectives, it is not a surprise that taxation of wealth within the European countries differs enormously. In April 2013, there were only a handful of countries within the OECD and only one within the European Union which remained to tax net wealth of their residents.<sup>3</sup> Several other OECD countries rescinded their wealth tax in last two decades.<sup>4</sup>

The research conducted by the National Equality Panel of the United Kingdom evidences that wealth inequalities within the OECD members are number of times more extreme in contrast to income inequalities.<sup>5</sup> The United Kingdom has never in its history applied a tax which would fall within the meaning of net wealth tax as it is understood nowadays. Indeed, various forms of wealth including the land and property are a considerable contributor to a quality of

---

<sup>1</sup> Kayte Lawton and Howard Reed, ‘*Property and Wealth Taxes in the UK, The context for reform*’ 2013, Institute for Public Policy and Research: Discussion paper, pp.10-14

<sup>2</sup> Robin Boadway et al., ‘*Chapter: 8 Taxation of Wealth and Wealth Transfers*’ 2011, Mirrlees Review, (Oxford University Press: September 2011), pp.737-739

<sup>3</sup> Iceland, France, Norway and Switzerland. France is the only member of the EU which applies net wealth taxation. Iceland re-introduced net wealth tax only temporarily for tax years 2009-2014.

<sup>4</sup> Spain in 2008; Sweden in 2007; Finland, Iceland and Luxembourg in 2006; the Netherlands in 2001; Denmark and Germany in 1997; Austria in 1994 for further information see Åsa Hansson, ‘*Is the Wealth Tax Harmful to Economic Growth?*’ 2010, February World Tax Journal 19-34

<sup>5</sup> John Hills et al., ‘*An anatomy of economic inequality in the UK: Report of the National Equality Panel*’ 2010, (Centre for Analysis of Social Exclusion: London), accessed online via <  
<http://webarchive.nationalarchives.gov.uk/20100212235759/http://www.equalities.gov.uk/pdf/NEP%20Report%20bookmarkedfinal.pdf>> 1-457, p.61

living. While 10% of the society owns over 40% of the entire wealth in the country,<sup>6</sup> none of the governments had decided to mitigate these inequalities by net wealth tax. On the other hand, the United Kingdom applies various types of taxation of wealth transfers, especially Inheritance tax and Stamp Duty tax. The current system is unpopular and alleged to be unfair and inefficient. Concepts of fairness and efficiency will be examined in the second chapter. For the following reasons the United Kingdom is of a particular interests of this paper. Still, the discussion about net wealth tax and property taxation might be relevant for other Members of the European Union.<sup>7</sup>

Wealth taxation is often fuelled by the pay-ability principle justification. It is suggested that there is a greater ability to pay from the capital income in contrast to the earned income since it is more secure and stable.<sup>8</sup> However, it does not necessarily make it automatically justified to tax it harder or even twice. An alternative justification is the ‘use it or lose it’ principle which originates in the economic theory of using all possible resources available to improve the efficiency of the national economy.<sup>9</sup> These and other justifications for the wealth taxation will be analysed in detail in later stages of this paper.

Property tax, the form of wealth taxation imposed on the property is an impersonal *in rem* type of the levy. In the past, the United Kingdom used to apply various forms of property tax including rather simplistic ‘Window tax’ introduced in 1696 based on the number of windows in a dwelling. At the moment however, the only Council tax is levied on properties. Council tax is a hybrid of consumption and property taxes since it is levied according to the value of the property, however occupiers carry the burden to pay for it.<sup>10</sup> In addition, the effective tax rate steadily decreases as the values of dwelling increases. It is therefore regressive tax what makes it an untypical property or wealth tax.<sup>11</sup> A number of commentators argue that Council tax should be heavily reformed in order to be more efficient and to be more reflective to the values of the properties.

## 1.2 Purpose

In the context of the current pressurised political and economic situation, the purpose of this paper is to analyse whether net wealth and property taxation would be a more desirable alternative to other forms of wealth transfer taxation applied in the current system. In other words, the paper endeavours to suggest an optimal taxation system for the United Kingdom in respect of wealth and property taxation. Optimal taxation criteria shall be set in the Chapter 2. Since both of these taxes are highly controversial, this paper will assess their positive and

---

<sup>6</sup> James Mirrlees et al., ‘*Tax by Design: the Mirrlees Review*’ (Oxford University Press: September 2011), ISBN: 978-0-19-955374-7, pp.349-351

<sup>7</sup> Jan Schnellenbach, ‘*The Economics of Taxing Net Wealth: A Survey of the Issues*’ 2012, Volume 12 (4) Public Finance and Management 1-36, pp.2-4

<sup>8</sup> Christer Silfverberg, ‘*The Swedish Net Wealth Tax – Main Features and Problems*’ 2002, No.44 Scandinavian studies in law, ISSN 0085-5944, 367-374, p.368

<sup>9</sup> Jan Schnellenbach, ‘*The Economics of Taxing Net Wealth: A Survey of the Issues*’ 2012, Volume 12 (4) Public Finance and Management 1-36, p.23

<sup>10</sup> If the property is unoccupied, the burden is placed back on the owners of the property.

<sup>11</sup> Kayte Lawton and Howard Reed, ‘*Property and Wealth Taxes in the UK, The context for reform*’ 2013, Institute for Public Policy and Research: Discussion paper, p.10

negative aspects from three different perspectives: legal theory, economic and social. While this topic is highly political, this paper will attempt to avoid any value statements and political analysis and remain entirely academic and theoretical. The overall analysis and further proposals shall always be made on, at minimum, budget-neutral basis since the current economic situation does not realistically permit any tax revenue reductions.

This paper will investigate the current taxation system related to property taxes and wealth transfer taxes. Since the present Inheritance tax, Stamp Duty tax, and Council tax are often criticised to be unfair or inefficient or both, it is important to study them individually. While notions of equity and fairness are normative issues, the paper will refer to them according to standards suggested by leading economists.<sup>12</sup> It is equally important to highlight that none of these taxes bring substantial revenue to the budget hence their whole existence is uncertain. Having this in mind, the paper will examine whether it is possible to adjust these taxes to be more fair and efficient or whether net wealth and general property taxation would not be a better option to them.

### **1.3 Methodology and Materials**

The analysis of the role of taxation in the society plays a major role in the public finance. This master thesis will therefore be a public finance research. The key issue in this research deals with analysing applicability of net wealth and property taxation in the United Kingdom. It will provide a comparative study with other taxes which have their place in the current system. Is it plausible to introduce net wealth and property taxation in the UK? Would it be more fair and efficient in contrast to current wealth transfer taxes and hybrid property tax?

The hypothesis of this paper is that even though net wealth tax might seem to be as the ideal solution for an increase of the tax revenue in the United Kingdom which would similarly not harm the economy but would help to fairly distribute wealth amongst the society, it would not be a constructive development for the United Kingdom as a whole. Similarly, but without so strong conviction, a general property tax as the addition to current Council tax would not be a prudent decision. On the other hand, the current taxation system requires number of changes to be converted into a fairer and more efficient system.

Parameters for an analysis whether net wealth and property taxation would be a more desirable alternative to other forms of wealth transfer taxation applied in the current system and for suggesting an optimal tax system for the United Kingdom are equity and efficiency of the system; administration and compliance costs; and potential for tax avoidance set in the following chapter. Consequently, conclusions of this research will be drawn from a weighing of positive and negative effects found in considering the above mentioned parameters.

There are a number of research methods suitable to attest or refute the hypothesis. The first part of the analysis will set a theoretical framework for each form of the discussed taxation and assess it through a modern legal realism theory. It is definitely complicated to precisely

---

<sup>12</sup> See Chapter 2



define modern legal realism due to various contradicting doctrines<sup>13</sup> however this theory underlines the gap between individuals' rights and obligations. In addition, it pays an adequate attention on the connection of the law and sociology.<sup>14</sup> Legal realism permits mutual contradictions of laws or legal principles as long there are clear and definite ways of adjudicating which shall apply in particular circumstances. For realists, taxation fits into an institutional vision of law where inner morality is imperative. Based on these foundations, the essay will discuss different types of taxation firstly through pay-ability principle and later through economic and social arguments. 'Fair' taxation and social justice will be included in the discussion.

While legal and social analyses shall be mainly based on theoretical research, the economic analysis will also rely on the secondary analysis of the data that have already been collected and investigated by other researches. This is mainly due to high costs and impracticability of conducting own empirical research.

The thesis will accordingly analyse various sources of law and materials accessible in hard copies or electronically such as: doctrinal articles; tax studies and reviews, fundamental tax legal and public finance theories; primary law concerning specific forms of taxation; and news articles from trusted providers. Being an academic research, this paper will mainly rely on studies provided by recognised scholars and economists. The selection of sources shall be made objectively with the endeavour to provide studies of academics of diverse viewpoints. There is a major supply of material concerning desirable features of a tax system, however only limited number of those is focused on net wealth and property taxation and even fewer amounts provide empirical studies examining their effects.

## 1.4 Structure

The thesis is divided into the following six sections. The first part will provide a brief overview of the background information related to the research topic. This will be crucial for a reader to understand the importance and credibility of the study. The second part shall provide a theoretical framework which will define features of a desirable tax system hence the following parts will be able to compare and contrast different taxes. The third part will focus on the analysis of the current system and its need for an improvement. Particularly, the paper will assess social problems and inequality in the modern United Kingdom; along with fairness and efficiency of the existing wealth transfer taxes and hybrid property taxation. Thereafter, two following (Fourth and Fifth) sections will be the core of this thesis. They will methodically scrutinise all positive and negative factors of net wealth and property taxation. The theoretical framework with a historical perspective of both of them will be made. Furthermore, at the end of each of these sections comprehensible interim conclusions shall be provided. Sixth part shall provide a discussion with comparisons of net wealth tax to current wealth transfer taxes; and property tax to Council tax. The final section will present

---

<sup>13</sup> Morton Horwitz, 'The Transformation of American Law, 1870-1960 : The Crisis of Legal Orthodoxy' 1992, (Oxford University Press: Oxford), pp.185-195

<sup>14</sup> Stephen Ackroyd, 'Critical Realism, Organization Theory, Methodology, and the Emerging Science of Reconfiguration' 2010, (Springer Berlin: Heidelberg), pp.47-77

conclusions of the entire research and shall provide plausible proposals for enhancement of the current system. In particular, the summary will recapitulate arguments for affirming or refuting the original hypothesis of this paper.

## **1.5 Delimitations**

The research is limited to the wealth and property taxation. Also, the analysis of this paper whether the implementation of net wealth and property taxation is a plausible proposition for the modern economy shall be geographically restricted for the United Kingdom only. This is due to high wealth inequalities within the society; and criticism of the current wealth transfer taxes. Consequently, sufficient amount of attention will be paid towards examining of the strengths and weakness of the current British tax system.

The author is aware of budgetary limitation laws of the European Union encompassed in Stability and Growth Pact<sup>15</sup> or more recently in so-called the Fiscal Compact<sup>16</sup> which have a direct effect on the national fiscal policy with the aim to decrease the annual deficit of each member state. Similarly, researched taxes might have further implications on the free movement provisions of the European Union, especially free movement of capital provided by the Article 63 TFEU. However since this paper is principally focused on public finance research, these aspects will not be taken into account.

While the research will be made also from the social perspective, effects on an individual will not be largely taken into account since consequences of researched taxes on the society as a whole are more significant for the purposes of this study.

Lastly, this thesis is strictly limited to the amount of resources and alien empirical data used. Precise data covering effects of the current wealth transfer tax; the amount of the current tax avoidance; of the tax collection if the property or net wealth tax would be implemented; and the amount of potential avoidance of such taxes would be extremely vital. Conclusions shall be therefore viewed only as provisional and more research is required to affirm or refute findings of this research using different techniques, data and methodology.

The research is finalised on 25 May 2013. Any material published after this date is not taken into consideration.

## **2 Desirable features of a tax system**

Tax systems around the world do not develop in a vacuum therefore they are affected by various economic, political and social factors. Still there are fundamental standards suggested by leading economists to appraise the quality of a particular tax system. Four of these criteria are crucial: equity, efficiency, operating costs of running that system and amount of possible

---

<sup>15</sup> The Stability and Growth Pact ratified in 1997 is an agreement between members of the Economic and Monetary Union with the main purpose to facilitate and maintain fiscal discipline amongst individual states.

<sup>16</sup> The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (Fiscal Compact) ratified in 2012

tax avoidance. This chapter will in brief illustrate these criteria and following chapters will refer back to them.

## 2.1 Efficiency

Notions of efficiency and equity differ significantly since the former is a positive, objective criterion and the latter is a normative, subjective criterion.<sup>17</sup> *'Economics....deals with the efficient use of resources in best satisfying consumer needs.'*<sup>18</sup> There are two leading concepts of efficiency named after economists who proposed them. According to Pareto efficiency, an economic arrangement cannot be classified as efficient if it makes better off one person but harms another. If however an economic arrangement worsens the position of ones, it could still be treated as an efficient arrangement provided that the winners are able to entirely compensate the losers.<sup>19</sup> The actual compensation does not have to take place. It is consequently advisable that states shall take only those actions which produce more social benefits than social costs.<sup>20</sup> This would be Kaldor-Hicks efficiency.

In respect to the matter of efficient tax design, it must be mentioned that every tax imposes a cost on the taxpayer which consequently affects his economic decisions and distorts efficient selection.<sup>21</sup> This distortion of economic decisions is referred to as an excess burden or a deadweight loss. The major dilemma of the inefficient tax design based on distorting taxes is that it brings no advantage to the taxpayer and no more revenue for the state.<sup>22</sup> Every efficient tax system shall therefore aim to minimise the excess burden.

From the perspective of efficiency, Musgrave proposes that the least distorting tax which would minimise deadweight costs on economy and at the same time brings the highest revenue for Treasury is the head tax. On the other hand, he admits that this tax would entirely fail on the equity grounds.<sup>23</sup>

## 2.2 Equity

In contrast to efficiency, the concept of equity is more controversial. Notions of equity and fairness are normative issues and depend on ones considerations therefore they could barely, in the first glance, be described as persuasive economic or legal arguments for the existence of a particular tax system.<sup>24</sup> For instance, Prof. Block totally rejects to recognize ethical

---

<sup>17</sup> Russell Sobel, *'Handbook of Public Finance'*, 2006 (Kluwer, Chapter 2- Welfare Economics and Public Finance), p.20

<sup>18</sup> Richard Musgrave and Peggy Musgrave, *'Public Finance in theory and practice'* 1989, (McGraw-Hill International Editions: New York 5td Ed.), p.60

<sup>19</sup> Russell Sobel, *'Handbook of Public Finance'*, 2006 (Kluwer, Chapter 2- Welfare Economics and Public Finance), p.22

<sup>20</sup> Edward Stringham, *'Kaldor-Hicks efficiency and the problem of central planning'* 2001, Volume 4, Number 2 Quarterly Journal of Austrian Economics 41-50

<sup>21</sup> Harvey Rosen and Ted Gayer, *'Public Finance'* 2007, (McGraw-Hill: New York 8<sup>th</sup> Edition), p.331

<sup>22</sup> Chris Jones, *'Applied Welfare Economics'* 2005 (Oxford University Press: Oxford), pp.173-176

<sup>23</sup> Richard Musgrave and Peggy Musgrave, *'Public Finance in theory and practice'* 1989, (McGraw-Hill International Editions: New York 5td Ed.), p.279

<sup>24</sup> Nick Pearce, *'Rethinking fairness'* 2007, Volume 14(1) Public Policy Research 11-22

presumptions justifying taxation on moral grounds and claims that taxation must be based only on objective foundations accepted and defined by the society.<sup>25</sup>

Rawls suggests a procedural theory of fairness. Every fair outcome must be based on fair process.<sup>26</sup> Consistent with this assumption, visible inequalities within the society may still be treated as equitable, as long as the process which produced was also fair. In regards to taxation, equitable tax structure design is where every tax payer pays its fair share to the cost of government. At the heart of this idea is however again the dilemma of an exact definition of what is a fair share.

One of the approaches of defining fair share dates back to classical economics as Adam Smith.<sup>27</sup> A taxpayer shall be bound to contribute to the common budget in the level equal to benefits he receives from public services. As it can be seen, this theory mainly takes into account tax expenditure policy and does not provide any redistribution within the society.

In contrast, more contemporary economists centre their attention on the pay-ability principle which is fuelled by the redistribution objective. In their view, an equitable system is one which forces a taxpayer with higher ability to contribute more to a common budget and those with less ability to contribute a smaller amount. Logically, taxpayers of the same ability shall contribute equally. Economists define former as vertical equity and the latter horizontal equity. Complications arise if a source of one's ability to pay differs. For instance, shall a capital income be treated equally to earned income? Lack of quantitative rules which would have potential to precisely measure the ability-to pay renders this equitable criterion to be imperfect. Hypothetically, a combination of the total welfare which an individual may obtain from opportunities available to him, including consumption, holding of wealth and enjoyment of leisure may be suitable to determine one's ability to pay. This is however impracticable since, for example, value of leisure cannot be measured.<sup>28</sup>

Apart of the theoretical concept of fairness briefly discussed in this subsection, the paper shall refer to empirical equity of taxation or public perception of fairness.

### **2.3 Administration and compliance costs**

Following features of a desirable tax system are low administration and compliance costs. Some academics include, for lucid reasons, this feature into efficiency criterion. For clarity purposes, it shall be examined separately.

Administration costs are costs to the government for conducting an assessment and collection of taxes. Compliance costs on the other hand are costs spent by a taxpayer in complying with tax obligations. Prof. Evans believes that every government shall be extremely aware of

---

<sup>25</sup> Walter Block, 'Public Finance Texts Cannot Justify Government Taxation: A Critique' 2011 36 Canadian Public Administration 252-262

<sup>26</sup> John Rawls, 'A theory of justice' 1999 (Harvard University Press: Harvard), pp.10-12

<sup>27</sup> Adam Smith, 'Wealth of Nations' 1776

<sup>28</sup> Richard Musgrave and Peggy Musgrave, 'Public Finance in theory and practice' 1989, (McGraw-Hill International Editions: New York 5th Ed.), p.223

operating costs of the tax system. The ratio between the costs of administering and collecting taxes borne by government and costs spent by a taxpayer against the total revenue of a particular tax shall be kept as little possible.<sup>29</sup> Conversely, various studies evidence that costs of tax collection, tax enforcement and compliance costs amount to up to 12% of the entire tax revenue.<sup>30</sup>

Shaw et al. suggest that modern 'optimal tax theory' has been for considerable amount of time overlooking the importance of administration and compliance costs and kept focusing only on distortions of public behaviour, referred to as 'distortion costs'.<sup>31</sup> On the other hand, he claims that it is feasible to amend the current system to reflect operating costs. It would then comprise authentic characters of tax administration such as fines for tax evasion, costs of reporting obligations and enquiry rates. Munk supports stance that only a marginal development has been made in respect of implementation of administration costs into the theory of optimal taxation and emphasizes the importance of empirical research which shall provide comprehensive evidence that a particular tax bears only limited amount operating costs.<sup>32</sup>

## 2.4 Tax avoidance

The last criterion of a desirable tax system to be discussed is a potential amount of tax avoidance. It is relatively simple to ascertain that tax avoidance is a source of revenue leakage; it increases costs of the system and affects complexity of tax law.<sup>33</sup> Tax avoidance presents an immense problem for every government since it endangers efficiency and equity of tax the system.<sup>34</sup> For instance, excessively complicated system which encourages taxpayer to tax avoidance is not to be perceived as desirable.<sup>35</sup> Equally undesirable is a system which would be impossible to precisely administer to prevent possible tax avoidance, or if such administration would be exceptionally expensive.<sup>36</sup>

While states may adopt strict enforcement approach which encompasses high penalties on evaders and burdens taxpayers with frequent tax audits, fight again tax avoidance cannot be

---

<sup>29</sup> Chris Evans, 'Counting the costs of taxation: an exploration of recent developments' 2006, in *London School of Economics Capital Markets seminar series* presented at London School of Economics Capital Markets seminar series, London, England, 16 October 2006, pp.1-3

<sup>30</sup> Chris Evans, 'Studying the studies: an overview of recent research into taxation operating costs' 2003, Volume 1 Journal of Tax Research 64-92

<sup>31</sup> Jonathan Shaw et al., 'Chapter: 12 Administration and Compliance' 2010, Mirrlees Review, (Oxford University Press: April 2010), p.1101

<sup>32</sup> Knud Munk, 'Tax-tariff reform with costs of tax administration' 2008, Volume 15 Issue 6 International Tax and Public Finance 647-667, pp.648 and 659

<sup>33</sup> Jonathan Shaw et al., 'Chapter: 12 Administration and Compliance' 2010, Mirrlees Review, (Oxford University Press: April 2010), p.1102-1103

<sup>34</sup> Martin Besfamille and Cecilia Sirrito, 'Modernization of Tax Administrations and Optimal Fiscal Policies' 2009, Volume 9 Issue 6 Journal of Public Economic Theory 897-926, pp. 898-901

<sup>35</sup> Joel Slemrod, 'Tax avoidance, evasion, and administration' 2002 Volume 3 Handbook of Public Economics 1423-1470, pp.1424, 1428 and 1460

<sup>36</sup> Martin Feldstein, 'Tax Avoidance and the Deadweight Loss of the Income Tax' 1999 Volume 81 Number 4 The Review of Economics and Statistics 674-680, pp.674-676

separated from the design of optimal tax.<sup>37</sup> In this respect, prudent tax designer shall minimise the potential for tax avoidance by avoiding blurred boundaries of a tax base.

### 3 Current taxation system

The previous chapter has examined the features of a desirable tax system. This chapter will provide a brief overview and analyses of Stamp Duty, Inheritance and Council taxes effectiveness and functionality in order to be able to scrutinise in the following part, whether net wealth and property taxation might be a better alternative to them.

#### 3.1 Budget Deficit and Social inequality

The underlying rationale behind virtually every tax is a raise of revenue which it brings for the national budget. According to the Office for National Statistics in the United Kingdom, British economy has only narrowly avoided triple-dip recession during the first quarter of 2013.<sup>38</sup> In the fiscal year 2012/2013 the deficit amounted to almost 8%<sup>39</sup> what underscored an importance for higher tax revenue since austerity measures taken by the government are already beginning to cause a social unrest within the country. In addition, enormous economic stimulus projects were commenced to counterbalance the recession.

In this state of affairs of rising public debt and budgets in a state of disorder, voices from various backgrounds suggest that the introduction of net wealth or property taxation would help to deal with severe fiscal challenges of the economy and consolidate public finances. For an instance, Deputy Prime Minister of the United Kingdom disclosed his intentions to raise the tax revenue through wealth tax in autumn 2012.<sup>40</sup> While his proposals have only limited chances for success in the current government with the Conservative party, it highlights an increasing overall opinion of the population for 'rich to pay their fair share'.

Undoubtedly, various forms of wealth including the land and property are a considerable contributor to a quality of living. Historically wealth in the United Kingdom is distributed predominantly unevenly. According to the National Statistics, 10% of the society owns over 40% of the entire wealth in the country.<sup>41</sup> The redistribution of the wealth argument was the rationale for the Labour government in 1974 to create a Green Paper on the implementation of the wealth tax in the UK stating: '*...the government is committed to using the taxation system to promote greater social and economic equality. This requires a redistribution of*

---

<sup>37</sup> Martin Besfamille and Cecilia Sirrito, 'Modernization of Tax Administrations and Optimal Fiscal Policies' 2009, Volume 9 Issue 6 Journal of Public Economic Theory 897-926, p.898

<sup>38</sup> BBC official website, 'UK economy avoids triple-dip recession' 25 April 2013, accessed via <<http://www.bbc.co.uk/news/business-22290407>>

<sup>39</sup> Office for National Statistics- official website, 'Statistical bulletin: Public Sector Finances, March 2013' 23 April 2013, accessed via <<http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/march-2013/stb---march-2013.html#tab=Public-sector-net-borrowing>>

<sup>40</sup> BBC official website, 'Lib Dem conference: Clegg promises to push for wealth tax' 23 September 2013, accessed via <<http://www.bbc.co.uk/news/uk-politics-19690327>>

<sup>41</sup> James Mirrlees et al., 'Tax by Design: the Mirrlees Review' (Oxford University Press: September 2011), ISBN: 978-0-19-955374-7, pp.349-351

*wealth as well as income...'*<sup>42</sup> The wealth tax has however never been implemented. There is number of evidences which support an argument that high inequalities have negative effects on the growth rate however these will be discussed in detail in later parts of this paper.

To get an entire picture of the social inequalities and differences of the wealth distribution within the United Kingdom it is fruitful to mention few further facts:

- *'The wealthiest tenth is over 850 times wealthier than the least wealthy tenth of households.*
- *A household required total wealth greater than £967,000 to belong to the wealthiest 10% of the distribution.*
- *The poorer 50% of households possess in average net wealth of £4400 in contrast to £1.2 million net wealth owned by the top 10%*
- *Over half of the combined wealth held by the top 10% of households was private pension wealth.'*<sup>43</sup>

As it is apparent from the evidence provided by the Office for National Statistics, there are massive inequalities in overall, however differences in the private pensions are the most striking since the top 10% average pension savings equals to £742 000 in contrast to £4 000 of the bottom 50%. This important fact will be crucial for the analysis whether it would be plausible to implement net wealth and property taxation.

### 3.2 Inheritance tax

Inheritance tax is one of the theoretical pillars of the wealth transfer taxes of the current tax system in the United Kingdom. It is levied on the estate of the deceased at a rate of 40% over the individual threshold of £325 000. According to Lawton and Howard, only 3% of all deaths involved paying the inheritance tax.<sup>44</sup> The annual revenue from the inheritance tax for the fiscal year 2012-2013 was forecasted to amount to £3bn what is less than half percent of total receipts;<sup>45</sup> therefore its contribution for the national budget is truly trivial.

While views about this tax are extremely polarized, in general, it is one of the most unpopular taxes in the United Kingdom. Boadway et al argue that it is recognized to be inequitable since *'...wealthy are better able to reduce the amount they pay by giving away part of their wealth*

---

<sup>42</sup> Howard Glennerster, *'Why Was a Wealth Tax for the UK Abandoned? Lessons for the Policy Process and Tackling Wealth Inequality'* 2012, 41 Journal of Social Policy 233-249, p.238 and Labour Party, *'Wealth Tax Green Paper'* 1974 Labour Party: London, p.3-6

<sup>43</sup> Office for National Statistics- official website, *'South East has biggest share of the wealthiest households'* 03 December 2012, accessed via < <http://www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-2/wealth-of-the-wealthiest--2008-10/wealth-of-the-wealthiest-households--great-britain--2008-10.html>>

<sup>44</sup> Kayte Lawton and Howard Reed, *'Property and Wealth Taxes in the UK, The context for reform'* 2013, Institute for Public Policy and Research: Discussion paper, p.12

<sup>45</sup> The Office for Budget Responsibility, *'Economic and fiscal outlook'* 2012, accessed via < <http://budgetresponsibility.independent.gov.uk/wordpress/docs/March-2012-EFO1.pdf>> pp.99-103

*tax-free during their lifetimes. The moderately wealthy tend to have capital tied up in their house, and anti-avoidance provisions in the tax rules make it hard to 'give away' all or part of the value of a house while you are still living in it.*<sup>46</sup> This opinion is strongly supported by Dolphin in his analysis and proposal for Inheritance tax abolition.<sup>47</sup> In addition, the *Inheritance Tax Act 1984* provide for number of reliefs, such as business and agriculture if it remains within the family which is not necessarily well targeted. The research conducted in 2008 about how the public perceives some of the wealth taxes demonstrates, that the main arguments for unpopularity of inheritance tax is the rationale that people paid income tax through their working lives and yet their accumulated estate will be taxed again by the separate tax. This 'double taxation' is viewed by the public as unfair.<sup>48</sup> From the practical perspective, there are two further unfavourable aspects of this tax. Firstly, the 40% flat rate does not correspond with the progressivity pattern of the income tax. Secondly, its arbitrary nature may result in paying both capital gains and inheritance tax or occasionally none of them. Lastly, Lawton and Howard well argue the strongest unreasonable ground of the current inheritance tax which does not take into account number of individual recipients but only the entire inherited estate. The effect might be that '*a large estate left to many recipients would be liable for inheritance tax even if each inheritor received only a relatively small bequest, whereas an estate valued at just less than the married couples threshold of £650,000 and left to a single child would not attract any tax.*'<sup>49</sup> It will be discussed below that this effect runs entirely against fundamental rationales behind the inheritance tax and pay-ability principle. In other words, those of higher ability do not necessarily contribute more. Accordingly, there are situations when similar ability will be taxed unequally what makes it neither vertical nor horizontal equitable taxation.

In contrast to general public, legal theorists tend to support inheritance tax. Thuronyi, for an instance, sees it as a complement to an income tax since it itself does not tax wealth but only its accretion. He rephrases an argument of an economist Cedric Sanford,<sup>50</sup> that it would be not desirable to allow unfettered intergenerational transfers of substantial wealth since there is a strong moral justification to tax heirs who have done nothing to earn their wealth.<sup>51</sup> Accordingly, it could be viewed as abnormal to tax those who acquire their wealth by effort but not to tax others who inherit substantial wealth without any effort whatsoever. It might be also viewed as similar rationalisation to the pay-ability principle since the recipient is the position when his ability to contribute to the society is greater. A commonly discussed argument is so called *Cornegie effect*. Considerable wealth left to a recipient might entirely

<sup>46</sup> Robin Boadway et al., '*Chapter: 8 Taxation of Wealth and Wealth Transfers*' 2011, Mirrlees Review, (Oxford University Press: September 2011), p.738

<sup>47</sup> Tony Dolphin, '*Death and Taxes: Why Inheritance Tax should be replaced with a Capital Receipts Tax*' 2010, Institute for Public Policy and Research, accessed via [http://www.ippr.org/images/media/files/publication/2011/05/Death%20and%20Taxes%20Dec2010\\_1818.pdf](http://www.ippr.org/images/media/files/publication/2011/05/Death%20and%20Taxes%20Dec2010_1818.pdf)

<sup>48</sup> Rajiv Prabhakar, '*Wealth Taxes: Stories, Metaphors and Public Attitudes*' 2008, April-June, Vol. 79, Issue 2 The Political Quarterly 172-178, p.175

<sup>49</sup> Kayte Lawton and Howard Reed, '*Property and Wealth Taxes in the UK, The context for reform*' 2013, Institute for Public Policy and Research: Discussion paper, p.13

<sup>50</sup> See Cedric Sandford, '*Taxing personal Wealth: An Analysis of Capital Taxation in the United Kingdom*' 1971 (Allen& Unwin: London)

<sup>51</sup> Victor Thuronyi, '*Tax Law Design and Drafting*' 1996, Volume 1, International Monetary Fund: Chapter 10- Taxation of Wealth, p.6-7



deaden recipient's endeavours, talents and energies. Subsequently, it would lead to less efficient and worthy life than he otherwise would have.<sup>52</sup> While this is a valid argument, it must be mentioned that if hypothetically an heir would be bequeathed an estate of the value of £5m, virtually every inheritance tax would still leave him a wealth that 'deadens his talents'.

It could be seen that there are entirely different viewpoints on this issue. The public tend to focus on the perspective of a donor, who shall have a right to freely bequeath his estate which has already been taxed once through an income tax without a further taxation. Academics on the other hand centre their attention on the moral justification for taxing an effortlessly acquired wealth of the recipient. In this instance, it is important to return to the previously mentioned criticism of inheritance tax, especially that it does not take into the account number of recipients, but only the size of the estate. Whereas virtually all legal theorists condemn effortlessly acquired wealth, still the current form of Inheritance tax does not take it into the account what leaves it without any support arguments.

In conclusion, the current form of Inheritance tax in the United Kingdom may only hardly be treated by many academics as fair and efficient. Difference in treatment of *inter vivos* transfers of wealth makes it easy to avoid it; it disregards the amount of inherited wealth for an individual; it presents only minor revenue for the budget and affects only three percent of deaths. Mainly for these reasons, academic commentators and experts suggest either to radically reform the current form of inheritance by decreasing the individual threshold and shifting the burden of tax from donor to donee which would effectively mean the creation of Capital Recipients tax instead.<sup>53</sup> Alternatively, the inheritance is proposed to be abolished and that would simplify the tax system while not harming the revenue. On the other side of the spectrum are those as Thuronyi and Sandford who highlight that Inheritance is a vital complement to an income tax which it itself does not tax wealth but only its accretion.

### 3.3 Stamp Duty tax

Inheritance tax might be perceived of as a more obvious example of wealth transfer taxation since it deals with intergenerational transfer of wealth typically occurring within a family in contrast to Stamp Duty tax where the parties to the transaction are commonly unconnected. Stamp Duty tax is however the most widespread type of transfer wealth tax within the OECD, levied in 31 out of 34 member states.<sup>54</sup> In addition, it contributes to the budget the most amongst all other wealth transfer taxes. Nevertheless it presents just over one percent of total

---

<sup>52</sup> James Mirrlees et al., 'Tax by Design: the Mirrlees Review' (Oxford University Press: September 2011), Chapter 15: Taxes on Wealth Transfers, ISBN: 978-0-19-955374-7, pp.349

<sup>53</sup> See suggestions made by Tony Dolphin, 'Death and Taxes: Why Inheritance Tax should be replaced with a Capital Receipts Tax' 2010, Institute for Public Policy and Research, accessed via <[http://www.ippr.org/images/media/files/publication/2011/05/Death%20and%20Taxes%20Dec2010\\_1818.pdf](http://www.ippr.org/images/media/files/publication/2011/05/Death%20and%20Taxes%20Dec2010_1818.pdf)> pp.13-15

<sup>54</sup> Kayte Lawton and Howard Reed, 'Property and Wealth Taxes in the UK, The context for reform' 2013, Institute for Public Policy and Research: Discussion paper, p.19

receipts.<sup>55</sup> Since the paper focuses on wealth and property taxation, this section will principally deal with Stamp Duty land tax (SDLT) and only marginally on sale of shares in United Kingdom corporations.

SDLT was introduced only ten years ago however its origins in the United Kingdom as a transfer tax on real estate transactions outreaches to the 1950's. It is levied on the purchaser and progressively depends on the purchase price of the real estate property which falls within a particular threshold. In contrast to inheritance tax, it is an equitable tax. Various thresholds in the system practically mean that a small raise of price might substantially increase the purchaser costs.

Commentators suggest that there are not apparent arguments or sound economic advantages of the SDLT apart of raising revenue for the budget.<sup>56</sup> One hypothetical rationale behind the SDLT might be to offset costs for keeping records of proprietors of estates and services connected to that. This theory could however be relatively easily refuted. Firstly, revenue collected outbalances administrative costs for maintaining such records and secondly, purchasers are liable to pay separate fees to the Land Registry which is principally responsible for these records.<sup>57</sup>

On the other hand, there are a number of academics who blame SDLT for distorting economic behaviour which consequently lead to decreased efficiency and lower economic output. Hence, it is according to the framework described in the Chapter 2, excessively inefficient tax. It is a fundamental economic theory that virtually every tax affects economic behaviour.<sup>58</sup> The question is mainly to analyse the degree of distortions and whether there are positives which are able to offset them.<sup>59</sup> Two trends of affected economic behaviour could be singled out: prices of properties for sale are kept just under the threshold and householders are less incentivised to move. Two separate detailed studies conducted in 2012 and 2013 substantiate that the housing market respond to SDLT in a way that above mentioned economy theory predicts. There is clear evidence that SDLT negatively affects household's tendency to move and the anticipation that a move is imminent. Relatively minor increase of SDLT has a potential to decrease the mobility by approximately 30% and might consequently cause a housing market to be considerably underpriced.<sup>60</sup>

---

<sup>55</sup>The Office for Budget Responsibility, '*Economic and fiscal outlook*' 2012, accessed via <<http://budgetresponsibility.independent.gov.uk/wordpress/docs/March-2012-EFO1.pdf>> pp.99-103

<sup>56</sup> Hal Pawson and Steve Wilcox, '*UK Housing Review: Briefing Paper*' 2012, (Chartered Institute of Housing: Coventry), pp.15-17

<sup>57</sup> Walter Kickert, '*How the UK government responded to the fiscal crisis: an outsider's view*' 2012, Volume 32, Issue 3 Public Money & Management 169-176

<sup>58</sup> Among others, see Martin Feldstein, '*On the theory of tax reform*' 1976, Volume 6, Issue 1-2 Journal of Public Economics 77-104

<sup>59</sup> Jean Arnold et al., '*Tax Policy for Economic Recovery and Growth*' 2011, Volume 121, Issue 550 The Economic Journal, pp.59-80

<sup>60</sup> See studies of Christian Hilber and Teemu Lyytikäinen, '*Stamp duty and household mobility: Regression discontinuity evidence from the UK*' 2012, accessed online via <<http://www.ieb.ub.edu/aplicacio/fitxers/WS12Hilber.pdf>>, pp. 1-19; Michael Best and Henrik Kleven, '*Housing Market Responses to Transaction Taxes: Evidence From Notches and Stimulus in the UK*' 2013,

Further criticism of the SDLT is put forward by practitioners. They suggest possible avoidance by artificially decreased purchased price but inflated costs of fixtures and fittings which are compulsory affiliated to the sale of the property.<sup>61</sup> Similar practices lead to costly policing procedures conducted by the relevant authorities.<sup>62</sup>

Taking into account lack of clear rationales behind the SDLT tax and only insignificant contribution which it brings to the revenue, this wealth transaction tax does not appear to be a lucid part of the current tax system. While there are various proposals how to reform the structure of the tax and subsequently increase revenue, these suggestions would only further negatively impact the economic behaviour and decrease the efficiency of the entire economy.<sup>63</sup> Particularly negatively affected would be housing market and construction industry. On the other hand, since many developed economies apply similar form of property transaction tax, there is only small possibility for its abandonment in the current economic climate.

### 3.4 Council tax

The only tax generally levied on properties within the United Kingdom at the moment is Council tax which generates revenue of 4.4% of total receipts.<sup>64</sup> It is a spine of local council finances and funds inevitable local services.<sup>65</sup> The paper will not be assessing for the purposes of this research the so called 'Annual Tax on Enveloped Dwellings' (ATED) introduced by Finance Bill 2013 which came into effect on 1 April 2013. This is due to the fact that this tax will affect only residential properties of the value over £2 million not held by individuals but are 'enveloped' by a corporate entity.<sup>66</sup> The amount of residential dwellings falling within the scope of this tax will hence be negligible and HMRC expects to have it no significant economic impact.<sup>67</sup>

Council tax is a hybrid of consumption and property taxes since it is levied according to the value of the property however occupiers carry the burden to pay for it.<sup>68</sup> The income of the occupier is immaterial for the purposes of setting the annual tax amount therefore the

---

accessed online via <[http://personal.lse.ac.uk/BESTM/research/best-kleven\\_landnotches\\_april2013.pdf](http://personal.lse.ac.uk/BESTM/research/best-kleven_landnotches_april2013.pdf)> pp.1-44

<sup>61</sup> Paul Clark, 'Many happy returns' 2013, 1 The Conveyancer and Property Lawyer, pp. 7-16

<sup>62</sup> Robin Boadway et al., 'Chapter: 8 Taxation of Wealth and Wealth Transfers' 2011, Mirrlees Review, (Oxford University Press: September 2011), p.808

<sup>63</sup> The author refers to proposals to: increase the current rate level Stamp Duty land tax; and/or decrease applicable thresholds what would fundamentally have the same effect as the first suggestion.

<sup>64</sup> The Office for Budget Responsibility, 'Economic and fiscal outlook' 2012, accessed via <<http://budgetresponsibility.independent.gov.uk/wordpress/docs/March-2012-EFO1.pdf>> pp.99-103

<sup>65</sup> William McCluskey et al., 'A Primer on Property Tax: Administration and Policy' 2013 (Wiley-Blackwell: Chichester, 1<sup>st</sup> Edition), pp.2-10

<sup>66</sup> The official website of HMRC, 'Annual Tax on Enveloped Dwellings - the basics' 2013, accessed online via <<http://www.hmrc.gov.uk/ated/basics.htm#1>>

<sup>67</sup> The official website of HMRC, 'Taxation of high-value UK residential property held by certain non-natural persons' 2013, accessed online via <<http://www.hmrc.gov.uk/budget2013/tiin-1182.pdf>>, p.2

<sup>68</sup> If the property is unoccupied, the burden is placed back on the owners of the property.

traditional determinant of the pay-ability principle is lacking.<sup>69</sup> Instead, dwellings are categorised into eight bands (A to H) depending on the estimated value of that property in 1991, which is hard to justify over 20 years later.<sup>70</sup> The nominal tax rises with the increase of the value of the property what partially substitutes missing income factor mentioned above. However, the effective tax rate<sup>71</sup> steadily decreases as the values of dwelling increases. The current form of council tax ‘...places a greater burden on younger and poorer households relative to older and richer households, and on households in less prosperous regions compared to more affluent areas.’<sup>72</sup> It is therefore clearly a regressive tax what makes it an untypical property or wealth levy. The following criticism lies with the unevenly concentrated properties within the taxation bands since 60% of dwellings fall within the bottom three bands in contrast to less than 10% fall within top three.<sup>73</sup> Likewise, all properties valued above £320 000 in 1991 are charged by exactly the same amount.

For the following reasons Council tax is perceived by the public to be a particularly unjust levy. Mirrlees et al. argue that it is unpopular in the society also because it is a highly visible tax. 88% of tax is remitted by firms and Council tax is paid directly by individuals on regular<sup>74</sup> basis.<sup>75</sup> Since those of comparable ability do not necessarily contribute the same amount, it shall not be viewed as horizontally equitable tax. Similarly, vertical equity is not adhered because houses over certain limit are not charged more. Commentators therefore tend to support public views about unfairness of this tax and suggest various reforms. Regarding to operating costs of Council tax, it is an efficient tax with low potential of avoidance. Relatively high efficiency of the tax is caused by above mentioned lack of period revaluation of property values.

The vocal proposals for a reform concerns: revaluation of properties; eliminating property element of Council tax which would make it a clear consumption tax; to increase the amount of tax bands; and increase rates for the most valuable properties in order to make Council tax less regressive. Unquestionably, it would not be a wise proposal of this research to suggest an implementation of a separate property tax without proposing a reform of current Council tax. These taxes would only hardly run in conjunction with each other hence the mixture of them both will be analysed in the Chapter 6 of this paper.

---

<sup>69</sup> Anthony O’Sullivan and Kenneth Gibb, ‘Housing Taxation and the Economic Benefits of Homeownership’ 2012, Volume 27, Issue 2 Housing Studies pp. 267-279

<sup>70</sup> Robin Boadway et al., ‘Chapter: 8 Taxation of Wealth and Wealth Transfers’ 2011, Mirrlees Review, (Oxford University Press: September 2011), p.738

<sup>71</sup> Effective rate is the annual tax rate divided by the property value.

<sup>72</sup> Kayte Lawton and Howard Reed, ‘Property and Wealth Taxes in the UK, The context for reform’ 2013, Institute for Public Policy and Research: Discussion paper, p.10-11

<sup>73</sup> Peadar Davis et al., ‘An empirical analysis of simplified valuation approaches for residential property tax purposes’ 2012, Volume 30, Issue 3 Property Management, pp. 232-254

<sup>74</sup> Council tax could be paid monthly, quarterly or yearly. The most households opt for monthly payments to decrease the load on the family budget.

<sup>75</sup> James Mirrlees et al., ‘Tax by Design: the Mirrlees Review’ (Oxford University Press: September 2011), Chapter 16: The Taxation of land and property, ISBN: 978-0-19-955374-7, pp.382-384

## 4 Net Wealth tax

The previous chapter has provided a brief overview and analyses of three wealth transfer taxes applied in the current system. This chapter will focus on positive and negative aspects of net wealth tax and rationales behind it. In addition, it will discuss theoretical approaches of tax design used to evaluate between fundamental criteria studied in the second chapter.

In May 2013, annual net wealth tax featured tax systems of only one European Union member (France) and of two OECD members (Iceland,<sup>76</sup> Norway and Switzerland). Several other OECD countries rescinded their wealth tax in last two decades for various reasons.<sup>77</sup> For instance, in Germany the constitutional court suspended net wealth tax for being insufficiently clear in regards to period revaluations of wealth;<sup>78</sup> in Spain, it was abandoned as a part of the government strategy to fight against banking crisis<sup>79</sup> and in Sweden it was abolished due to its perceived negative impacts. Regardless to past abandonments, net wealth tax remains to be politically attractive since its tax base is number of times larger compare to income tax base.

It is important to note that wealth inequalities within the OECD members are number of times more extreme in contrast to income inequalities.<sup>80</sup> This chapter will methodically scrutinise positive and negative factors of net wealth tax and analyse feasibility of its implementation in the United Kingdom in the context of the current tax system.

### 4.1 Theoretical framework

Analysing net wealth tax, it is essential to firstly define its base. It is a levy typically imposed on an individual's net worldwide wealth (value of assets minus debts and any related liabilities). Based on the principle of uniformity, tangible and intangible elements of wealth shall be treated equally. Given that ability to pay is one of crucial underpinning principles of this tax, it is not levied on corporations and net wealth of corporations shall be imputed to owners.<sup>81</sup> It is imposed sporadically<sup>82</sup> or periodically,<sup>83</sup> often implemented on progressive

---

<sup>76</sup> Re-introduced only temporarily for tax years 2009-2014.

<sup>77</sup> Spain in 2008; Sweden in 2007; Finland, Iceland and Luxembourg in 2006; the Netherlands in 2001; Denmark and Germany in 1997; Austria in 1994; for further information see Åsa Hansson, 'Is the Wealth Tax Harmful to Economic Growth?' 2010, February World Tax Journal 19-34,

<sup>78</sup> Jan Schnellenbach, 'The Economics of Taxing Net Wealth: A Survey of the Issues' 2012, Volume 12 (4) Public Finance and Management 1-36, p.2

<sup>79</sup> Howard Glennerster, 'Why Was a Wealth Tax for the UK Abandoned? Lessons for the Policy Process and Tackling Wealth Inequality' 2012, 41 Journal of Social Policy 233-249, p.235

<sup>80</sup> John Hills et al., 'An anatomy of economic inequality in the UK: Report of the National Equality Panel' 2010, (Centre for Analysis of Social Exclusion: London), accessed online via <<http://webarchive.nationalarchives.gov.uk/20100212235759/http://www.equalities.gov.uk/pdf/NEP%20Report%20bookmarkedfinal.pdf>> 1-457, p.61

<sup>81</sup> Richard Musgrave and Peggy Musgrave, 'Public Finance in theory and practice' 1989, (McGraw-Hill International Editions: New York 5th Ed.), p.426

<sup>82</sup> Referred to 'capital levies'

<sup>83</sup> Victor Thuronyi, 'Tax Law Design and Drafting' 1996, Volume 1, International Monetary Fund: Chapter 10- Taxation of Wealth, p.1

rates. For the assessment purposes, wealth of the entire household or single individual might be taken.<sup>84</sup>

## 4.2 Normative principles and theoretical approaches of tax design

Designing the optimal tax system depends on criteria for evaluating and individual's normative principles. Efficiency and administrative costs are regularly used as a key benchmark of the optimal taxation.<sup>85</sup> These constraints will be used for analysing rationales behind and qualities of net wealth and property taxes in subsequent sections. Other academics also focus on political constraints of tax implementation in their assessment however it is outside the scope of research of this paper.

As it was explained in the section 2.1, the efficiency element deals with distortions of economic behaviour, such as decision to work or to accumulate and dispose wealth. Both of administrative costs on sides of taxpayers and authorities are important part the evaluation since costs for maintaining particular tax might be higher or equal to revenue itself. In respect of net wealth tax, valuation of some forms of wealth might be especially complex. On the other hand, some wealth might be simple to hide abroad or change the legal ownership.<sup>86</sup>

As it is provided by theoretical literature, further dissimilarities of optimal tax design hinge on the approach taken for an analysis. Utilitarian or so called 'welfarist', non-utilitarian and paternalistic approaches stand out.

The utilitarian approach takes into account utility or welfare received by an individual and that determines the level of his tax liabilities. The goal is therefore welfare maximisation and that the tax base shall improve taxpayer's wellbeing.<sup>87</sup> One might on these grounds argue that utilitarian approach copy the rationale of pay-ability principle which is used as a common rationale for taxation of wealth.

The non-utilitarian approach on the other hand focuses on the benefit of wealth for an individual which however must be above mere consumption and income which has already been taxed.<sup>88</sup> Status, power and significance in the society as an additional benefit conferred by the wealth run counter to the principle of equal opportunities which non-utilitarianists borrowed from welfarists.<sup>89</sup> If however the wealth shall be treated as an additional tax base, '*...one must be persuaded that it does provide benefits over and above those that confer*

---

<sup>84</sup> Harvey Rosen, 'Readings in Public Choice and Constitutional Political Economy: Chapter 22-Public Finance' 2008, (Springer: Fairfax) ISBN-10: 0387745742, p.384

<sup>85</sup> Gregory Mankiw et al., 'Optimal Taxation in Theory and Practice' 2009, The National Bureau of Economic Research: Working Paper No.15071 1-29, pp.4-5 based on Adam Smith, 'Wealth of Nations' 1776

<sup>86</sup> Robin Boadway et al., 'Chapter: 8 Taxation of Wealth and Wealth Transfers' 2011, Mirrlees Review, (Oxford University Press: September 2011), pp.760-761

<sup>87</sup> Joel Slemrod, 'Tax Progressivity and Income Inequality' 1996, (Cambridge University Press: Cambridge), p.346

<sup>88</sup> Jukka Pirttila, 'Tax Evasion and Economies in Transition: Lessons from Tax Theory' 1999, Bank of Finland; Center for Economic Studies and IFO Institute for Economic Research, Discussion Paper No. 2/1999, pp.1-43

<sup>89</sup> Waly Wane, 'The optimal income tax when poverty is a public 'bad'' 2001, Volume 82, Issue 2 Journal of Public Economics 271-299

utility, or that the benefits that confer utility do not otherwise end up being taxed. Indeed, it may well be that the forms of wealth that do confer extra benefits are those that cannot be easily taxed, such as human capital and other personal attributes.<sup>90</sup> The following subsection dealing with drawbacks of net wealth taxation will further discuss problems related to human capital and personal attributes.

Paternalism assumes that individuals are not able, for various reasons, to choose decisions which would be the best for them in the long run.<sup>91</sup> The state has therefore a right and duty to take decisions for them. Boadway et al. use as example donations to charity which might be against individual's self-interest however is based on ethics and social norms. Unfavourable tax treatment of such transactions would consequently affect one's decision making. In addition, paternalists deny consumers sovereignty. They believe that since an individual is not able to act responsibly in regards to own savings for retirement, gambling or excessive consumption, a state shall take up this role for him. This idea is evidently contradictory in context of net wealth taxation since straightforward effect of the wealth taxation is under saving which encourages consumption and excessive spending. Secondly, if a state is concerned about one's savings for retirement or an excessive spending, the revenue from the wealth tax should be allocated for an individual on his 'personal account' for the future and to be used for general welfare as welfarist approach advocates.

### 4.3 Advantages and rationales of net wealth tax implementation

#### 4.3.1 The ability to pay principle: Net wealth tax vs. income tax

Legal theorists propose that net wealth taxation is built on a clear idea underpinned by the pay-ability principle. An individual has greater ability to pay from capital income compare to earned income since it is more stable and secure. Hence it shall be taxed harder.<sup>92</sup> Thuronyi shares this opinion and illustrates it by a comparison of two individuals. Person 1 has an annual salary of £20 000 and Person 2 acquires the same £20 000 from his £200 000 investment. It would be impossible to claim that Person's 2 ability to pay is not higher.<sup>93</sup> Silfverberg believes that '*net wealth tax adds a progressive dimension to the taxation of capital*'. Since the majority of OECD members apply flat taxation on capital gains income in distinction to progressive taxation of the earned income, it is a logical argument that net wealth taxation might be used for equalising types of income. Moreover, '*...additional tax capacity afforded by wealth could allow top marginal income tax rates to be reduced without*

---

<sup>90</sup> Robin Boadway et al., '*Chapter: 8 Taxation of Wealth and Wealth Transfers*' 2011, Mirrlees Review, (Oxford University Press: September 2011), p.769

<sup>91</sup> Douglas Bernheim and Antonio Rangel, '*Beyond Revealed Preference: Choice-Theoretic Foundations for Behavioral Welfare Economics*' 2009, Volume 124, Issue 1 The Quarterly Journal of Economics 51-104, pp.51-52

<sup>92</sup> Christer Silfverberg, '*The Swedish Net Wealth Tax – Main Features and Problems*' 2002, No.44 Scandinavian studies in law, ISSN 0085-5944, 367-374, p.368

<sup>93</sup> Victor Thuronyi, '*Tax Law Design and Drafting*' 1996, Volume 1, International Monetary Fund: Chapter 10- Taxation of Wealth, p.4; the original source: Richard Goode, '*Government Finance in Developing Countries*' 1984, p.133

*sacrificing overall tax progressivity.*<sup>94</sup> Strong consumption power as the result of an extreme wealth of one class of the society compared to weak consumption power of the other class is an obstructive quality of the community and economy.<sup>95</sup> In this sense, a progressive tax on current wealth is better than progressive tax on income.<sup>96</sup>

In overall, net wealth tax would allow a government to collect higher revenue without placing a high tax burden on an individual.

#### 4.3.2 The benefit considerations

According to the benefit rationale, a government through its provision of public services increases the wealth of its owner who shall be subsequently liable to finance it.<sup>97</sup> Especially land and property values have a potential to increase without any endeavour of the proprietor whatsoever. The model example is the provision of transport links and schools by the government in the vicinity of the property. Winston Churchill argued that: *‘Roads are made, streets are made, services are improved, electric light turns night into day, water is brought from reservoirs a hundred miles off in the mountains— and all the while the landlord sits still. Every one of those improvements is effected by the labour and cost of other people and the taxpayers. To not one of those improvements does the land monopolist, as a land monopolist, contribute, and yet by every one of them the value of his land is enhanced.’*<sup>98</sup> These unearned increases of wealth shall be funded back by the owner of the property.<sup>99</sup>

Feldstein mainly considers the importance of a state as a protector of one’s wealth and a benefit which an owner automatically obtains from it. *‘In other words, if it could be established as an empirical regularity that demand for public goods is positively wealth elastic, then the benefit principle can serve as an argument for the introduction of a net wealth tax.’*<sup>100</sup> This argument is based on theories of Locke, Hume and Rousseau from the beginning of industrial period when states were seen as protectors of property.<sup>101</sup> Hence, its application to the current form of wealth is limited in view of the fact that revenue collected from net wealth tax certainly exceeds costs required for rendering the ‘protection’ services such as judicial protection, fire protection and law enforcement. One should also dispute that the richest individuals are able to fund their own security in contrast to the extremely poor.

---

<sup>94</sup> Victor Thuronyi, *‘Tax Law Design and Drafting’* 1996, Volume 1, International Monetary Fund: Chapter 10- Taxation of Wealth, p.4

<sup>95</sup> Anne Alstott, *‘Uneasy Liberal Case against Income and Wealth Transfer Taxation: A Response to Professor McCaffery’* 1996, Volume 51 Tax. L. Rev. 363, pp.365-368

<sup>96</sup> Richard Musgrave and Peggy Musgrave, *‘Public Finance in theory and practice’* 1989, (McGraw-Hill International Editions: New York 5th Ed.), p.412

<sup>97</sup> Richard Musgrave and Peggy Musgrave, *‘Public Finance in theory and practice’* 1989, (McGraw-Hill International Editions: New York 5th Ed.), p.411

<sup>98</sup> Winston Churchill in the House of Commons 1909 originally quoted by James Mirrlees et al., *‘Tax by Design: the Mirrlees Review’* (Oxford University Press: September 2011), ISBN: 978-0-19-955374-7, p.371

<sup>99</sup> Kayte Lawton and Howard Reed, *‘Property and Wealth Taxes in the UK, The context for reform’* 2013, Institute for Public Policy and Research: Discussion paper, p..8

<sup>100</sup> Jan Schnellenbach, *‘The Economics of Taxing Net Wealth: A Survey of the Issues’* 2012, Volume 12 (4) Public Finance and Management 1-36, p.12

<sup>101</sup> Martin Feldstein, *‘On the theory of tax reform’* 1976, Volume 6, Issue 1-2 Journal of Public Economics 77-104



What's more, this revenue would not be able to use for other welfare unconnected to protection of one's wealth. The same applies for earlier mentioned unearned increases of real properties caused by the provision of services funded by the state.

### 4.3.3 Social control and fairer distribution of wealth

The subsection 3.1 of this research has already provided detailed overview of the wealth inequality in modern Britain. It is a common perception that uneven wealth distribution might have serious economic and social consequences on the society caused by an unequal access to opportunities.<sup>102</sup> Wealth taxes may well also be supported by the argument of social control which is the most common within the general public and politicians.

Strong pattern of wealth inequality is however also evident across different age groups of the society. Over half of the top tenth richest households in the United Kingdom were aged 45-64.<sup>103</sup> This is not unforeseen information since people tend to accumulate wealth over their working life and just before the retirement age they reach the top of their personal wealth. Intergenerational exchange and income persistence is significant in OECD countries.<sup>104</sup> Net wealth tax could hence be also justified by equalising income and wealth differences of an individual's life cycle.

### 4.3.4 Positive effects on the economy

Net wealth tax could arguably have also positive effects on the economy. Firstly, older literature<sup>105</sup> proposes an argument that the next wealth taxation improves economic efficiency by inducing a taxpayer to look for more profitable investments in order to counter-balance costs of the additional taxation.<sup>106</sup> The theory applies chiefly to those with more significant wealth since the costs for obtaining information about potential more efficient investments are not trivial. In addition, Hansson claims that wealth taxation may '*...encourage investment in human capital, the most important component of national wealth and likely a crucial factor behind economic growth.*'<sup>107</sup> This model is nonetheless rather debatable and Ihori believes that wealth taxation has an opposite, negative effect on investment in human capital.<sup>108</sup>

---

<sup>102</sup> Peter Diamond and Emmanuel Saez, '*The Case for a Progressive Tax: From Basic Research to Policy Recommendations*' 2011, August: CESifo Working Paper Series No. 3548, pp.1-45,

<sup>103</sup> Kayte Lawton and Howard Reed, '*Property and Wealth Taxes in the UK, The context for reform*' 2013, Institute for Public Policy and Research: Discussion paper, p.7

<sup>104</sup> Orsetta Causa and Åsa Johansson, '*Intergenerational Social Mobility in OECD Countries*' 2010, Volume 2010 OECD Journal: Economic Studies 1-44, p.9

<sup>105</sup> See Cedric Sandford, '*Taxing personal Wealth: An Analysis of Capital Taxation in the United Kingdom*' 1971 (Allen& Unwin: London)

<sup>106</sup> Jan Schnellenbach, '*The Economics of Taxing Net Wealth: A Survey of the Issues*' 2012, Volume 12 (4) Public Finance and Management 1-36, p.23

<sup>107</sup> Åsa Hansson, '*Is the Wealth Tax Harmful to Economic Growth?*' 2010, February World Tax Journal 19-34, p.25 referring to Philip Trostel, '*The Effect of Taxation on Human Capital*' 1993, 101 Journal of Political Economy pp.327-350

<sup>108</sup> Toshihiro Ihori, '*Wealth taxation and economic growth*' 2001, Volume 79 Journal of Public Economics 129-148, pp.145-146

Secondly, net wealth tax is a solution of reduction of inequalities and access to opportunities within the society which in turn might have detrimental effects on the growth rate. Academics however are not uniform about its economic significance.<sup>109</sup>

Thirdly, Kocherlakota declares further argument why wealth taxation might be a positive feature of optimal taxation. He believes that skills used to turn effort into output evolve stochastically. These skills may emerge and vanish without a notice. While people need to be insured against these 'skill shocks', net wealth tax presents the right balancer to these life-cycle changes.<sup>110</sup> His research is based on the assumption that the state is only provider of insurance against skill shocks. In this context, periodic, commonly annual net wealth tax is more efficient and provides less volatility than one-off sporadic levy attributable to wealth transfer taxes. This hypothesis goes in hand with both paternalistic and utilitarian approaches. Paternalists consider that an individual is not able take reasonable steps to be prepared for skill shocks and utilitarians claim that tax utility, an insurance against skill shock, determines tax liabilities of an individual and implies wider welfare.

## 4.4 Negatives of net wealth tax implementation

### 4.4.1 Negative effects on the economy

Nearly every tax distorts economic behaviour and consequently decreases economic efficiency.<sup>111</sup> Adverse effect on economic performance is a widespread criticism of net wealth tax. For instance, Prof. Lodin was a particularly strong supporter of wealth tax abolition in Sweden, claiming that it is an awful tax which '*...not only distorting investment behaviour, but driving capital out of the country.*'<sup>112</sup>

It is extremely difficult to conduct sufficiently forceful empirical research which would irrefutably attest or disprove an existence of negative direct effects on the economy. This is due to the complexity of the issue and high number of factors affecting the growth rate. In her study in 2010, Hansson found robust support for the argument that wealth taxes hinder economic growth however its estimated magnitude is relatively modest.<sup>113</sup> Studies on this topic are particularly scarce and to the best of the author's knowledge, this is the only research of its kind. Hence, results will be taken with caution.

---

<sup>109</sup> Åsa Hansson, 'Is the Wealth Tax Harmful to Economic Growth?' 2010, February World Tax Journal 19-34, p.24 referring to Torsten Persson and Guido Tabellini, 'Is Inequality Harmful for Growth?' 1994, 84 American Economic Review pp.600-621 and Ugo Panizza, 'Income Inequality and Economic Growth: Evidence from American Data' 2002, 7 Journal of Economic Growth pp.25-41

<sup>110</sup> Naranaya Kocherlakota, 'Zero Expected Wealth Taxes: A Mirrlees Approach to Dynamic Optimal Taxation' 2005, Volume 73 Number 5 Econometrica 1587-1621

<sup>111</sup> Stefan Folster and Magnus Henrekson, 'Growth Effects of Government Expenditure and Taxation in Rich Countries' 2001, Volume 45, Number 8 European Economic Review 1-18, p.1

<sup>112</sup> Sven-Olof Lodin, 'The Making of Tax Law: the Development of the Swedish Tax System' 2011 (IBFD: Amsterdam), p.137

<sup>113</sup> Åsa Hansson, 'Is the Wealth Tax Harmful to Economic Growth?' 2010, February World Tax Journal 19-34, p.32

Some academics also suggest that net wealth tax might contribute to so-called capital drain. It has ‘...a harmful effect on the country’s economic activity, causing productive capital to leave and discouraging foreign investors from coming in.’<sup>114</sup> Nevertheless Pippin et al. challenge this statement and they claim that changes in country’s taxation strategy, including net wealth taxation, does not necessarily has to lead to cross country migrations.<sup>115</sup>

Whether or not net wealth taxation affects cross country migration of capital, it is certain that it decreases the amount of available capital for new start-up projects and hence detrimentally affects entrepreneurship. A subsidiary side effect is also reduced pay-off for a successful project which might affect a decision of an individual whether to remain an employee or to become self-employed.<sup>116</sup>

#### 4.4.2 Administrative costs and avoidance

Given that the tax base of net wealth tax is significantly larger in comparison to income tax, in order to counter all avoidance practices it has to encompass high administrative costs. Periodic valuations of one’s wealth are at the centre of the problem since it imposes compliance costs on the taxpayer and administrative costs on revenue.<sup>117</sup> For instance, the problem is a valuation of self-occupied property which has not been on the market for decades which is the main asset of the middle class household in the United Kingdom. Even harder is to appreciate hope value on land before planning permission has been granted. Logically, costs of valuation even further multiply for assets held overseas. On the other hand, if individual’s wealth will not be assessed on regular basis or overseas territories would be exempted, it would open floodgates for avoidance through manipulations with asset values or flow of assets abroad from the United Kingdom. Glennerster believes that it is precisely extreme administrative costs and difficulty of valuation of individual’s wealth on annual basis what made an implementation of net wealth tax in the United Kingdom impractical in past.<sup>118</sup> In the United Kingdom there is not a constitutional principle of equality similar to one in the German basic law which was a reason for finding German wealth tax unconstitutional due to inconsistent valuation process. Still, it shall be noted that preferential treatment to some assets which might be easier to assess has a prospective to render the entire wealth tax system

---

<sup>114</sup> Luminita Ristea and Adina Trandafir, ‘Wealth Tax Within Europe In The Context Of A Possible Implementation In Romania – The Existing Wealth Tax And Its Decline In Europe’ 2010, Volume 10 Issue 2 Annals of the University of Petrosani, Economics 299-306, p.304 based on Adam Smith, ‘Wealth of Nations’ 1776

<sup>115</sup> Sonja Pippin et al., ‘Property tax and other wealth taxes internationally: Evidence from OECD countries’ 2010, Volume 19 Advances in Taxation 145-169, p.149

<sup>116</sup> Åsa Hansson, ‘The Wealth Tax and Entrepreneurial Activity’ 2008, Volume 17, Issue 2 Journal of Entrepreneurship 139-156, p.140

<sup>117</sup> Robin Boadway et al., ‘Chapter: 8 Taxation of Wealth and Wealth Transfers’ 2011, Mirrlees Review, (Oxford University Press: September 2011), p.784

<sup>118</sup> Howard Glennerster, ‘Why Was a Wealth Tax for the UK Abandoned? Lessons for the Policy Process and Tackling Wealth Inequality’ 2012, 41 (2) Journal of Social Policy 233-249, p.239

inefficient.<sup>119</sup> In overall, if the valuation shall be regular and effective it might encompass higher administrative costs than revenue itself.

In respect of valuation of wealth, it should be highlighted that some assets are impossible to include in tax base. It was already discussed in subsection 4.3.4 how net wealth tax affects investments in human capital (education, talents, income potential, knowledge etc.) and why it is the most valuable asset for an individual. Indeed, the assessment of a current value of potential earnings made in the future, which will be taxed in the future is truly unworkable.<sup>120</sup> Secondly, the subsection 3.1 based on the national statistics established that the most sizeable material asset of the top tenth wealthiest households in the United Kingdom are pension savings rights. Similarly as above, practical constraints with valuation precludes a taxation of pension rights. It shall be said that the United Kingdom collects tax on pensions as a source of income and as a wealth transfer through an inheritance tax. Undeniably, it is a dilemma in the face of efficiency and equitability if authorities are not able to include the most valuable material (pension rights) and intangible (human capital) assets of an individual into tax base.

Final consideration shall be given to deductible liabilities. In order for net wealth tax to be efficient and equitable it must reflect only net wealth of individual, i.e. gross wealth shall be deducted by debts and other liabilities. This is a fundamental character of this tax. However, if liabilities are arising overseas where they are not to be taxed, one may practically avoid rather simply entire wealth tax in the United Kingdom. Adding this problem to above mentioned problem of asset valuation, '*...the net worth tax easily degenerates into a tax on real estate only.*'<sup>121</sup>

#### 4.4.3 Fairness considerations

In the perspective of contemporary economists who accept pay-ability principle and importance of redistribution within the system, net wealth tax is a rather equitable tax. Particularly vertical equity within the system is safeguarded since those with higher ability are asked to contribute more. Providing there would not be problems with assessment of wealth, the system would be also horizontally equitable.

Political considerations are not integral part of the research yet few brief comments shall be made of how public perceives net wealth tax and why its implementation would be challenging. Prabhakar's research clarifies that people in Britain find it unfair to tax assets which were already taxed through income tax or other taxes,<sup>122</sup> what effectively becomes an economic double taxation. This rationale follows the non-utilitarian approach discussed in the subsection 4.2, especially if assets falling within the scope of wealth tax do not generate an

---

<sup>119</sup> Christer Silfverberg, 'The Swedish Net Wealth Tax – Main Features and Problems' 2002, No.44 Scandinavian studies in law, ISSN 0085-5944, 367-374, p.371

<sup>120</sup> Borys Grochulski and Tomasz Piskorski, 'Optimal Wealth Taxes with Risky Human Capital' 2006, No 59 Society for Economic Dynamics: Meeting Papers, p.3

<sup>121</sup> Richard Musgrave and Peggy Musgrave, 'Public Finance in theory and practice' 1989, (McGraw-Hill International Editions: New York 5th Ed.), p.426

<sup>122</sup> Rajiv Prabhakar, 'Wealth Taxes: Stories, Metaphors and Public Attitudes' 2008, April-June, Vol. 79, Issue 2 The Political Quarterly 172-178, p.177

additional benefit for the proprietor other than was already taxed. Public also tend to view net wealth tax as excessively onerous for ‘asset-rich, cash poor’ part of the society. Mirlees et al. claim that *‘this seems to reflect the fact that perceptions of fairness in tax are more closely linked to the relationship of the tax to flows of income than to stocks of wealth.’*<sup>123</sup>

## 4.5 Conclusion

This chapter methodically analysed positive and negative factors of net wealth tax. The theoretical framework with a brief historical perspective was also provided. The study has established that there are number of credible arguments why net wealth shall be taxed additionally. The strongest rationales appeared to be pay-ability principle and positive effects of the tax which helps redistribution of the wealth in the society and decreases inequalities. The benefit argument and positive effects on the entire economy on the other hand does not seem to equally persuasive. Particularly benefit argument could be undermined by the amount of tax revenue and logic limitations connected with the benefit itself.

Negative effects of the net wealth tax on economy dominate other spectrum of arguments. While the amount of empirical economic research is limited, there are vigorous signs that dumped growth rate could be a result of net wealth tax. In addition, high administrative costs in modern mobile world and inability to tax human capital and pensions rights renders it impracticable to make this tax efficient and equitable.

## 5 Property tax

The previous chapter has focused on positive and negative aspects of net wealth tax and rationales behind it. This chapter will follow the same pattern and will scrutinise property taxation.

### 5.1 Theoretical framework

Property tax is a simplified form of wealth taxation where levy is not imposed on other assets except on the real estate of an individual. It is an impersonal- *in rem* type of the tax. In past, the United Kingdom used to apply various forms of the property tax including rather simplistic ‘Window tax’ introduced in 1696 based on the number of windows of a property. With the exception of Council tax, the United Kingdom does not levy any other periodic tax on properties at the moment.

Property tax is one of the most ancient taxes. It was levied far before income tax or other taxes on flows of income and expenditure for various economic and practical reasons. It represents stable, easy to verify tax base with large revenue potential and with moderately small distortions of economic behaviour caused by limited responsiveness of supply to price.<sup>124</sup> Mainly land (separate from taxable property in general) is singled out as a perfect tax

---

<sup>123</sup> James Mirlees et al., *‘Tax by Design: the Mirlees Review’* (Oxford University Press: September 2011), Chapter 16: The Taxation of land and property, ISBN: 978-0-19-955374-7, p.383

<sup>124</sup> Sven-Olof Lodin, *‘The Making of Tax Law: the Development of the Swedish Tax System’* 2011 (IBFD: Amsterdam), p.147

base for its efficiency and equity grounds.<sup>125</sup> Based on its identifiable and unchangeable geographic position, property tax has been a popular source of financing for local municipalities.<sup>126</sup>

There are different forms of properties and each of them has different characteristics. It will be helpful to differentiate between: land, business property and residential dwelling. Residential dwelling might be further divided into owner-occupied and rented dwelling however due to their comparable nature no distinction will be made for the purposes of this paper.

Given that property tax is a form of wealth tax, it has naturally various common advantages and disadvantages which are discussed below.

## 5.2 Advantages and rationales of property tax implementation

### 5.2.1 The ability to pay principle

In line with the structure of advantages of net wealth tax discussed in previous chapter 4.3, the first consideration shall be given to pay-ability principle. It was already concluded, that an ability to contribute of Person 1 whose income is acquired from investment is certainly higher in comparison to Person 2 who has an annual salary of the same amount. In respect of properties, similar is applicable however not so straightforward. Two examples shall be made. If Person 1 acquires the income from renting his real estate property and Person 2 earns exactly the same amount from his employment, it is relatively effortless to conclude that the ability to pay of Person 1 is higher. Conversely, if we compare Person 1 with the rental income and Person 2 with the income from interests on savings of the same amount, the conclusion is more blurred. Arguably, Person 2 ability is even higher since the liquidity of his investment/savings is higher in contrast to the rented property of Person 1 who is unable to easily capitalise his property or partially decrease a share in it. In other words, if Person 1 owns a property of the value of £200 000 and rental income of £20 000 (cash available is £20 000) and Person 2 has savings of £200 000 and interests of £20 000 (cash available is £220 000), Person 1 remains to be £200 000 cash down compare to Person 2.<sup>127</sup> Their ability could, at most, be perceived as equal. Additional taxation of property would hence create an obscure situation of horizontal inequality where investment in savings are taxed only as interests income but rental property is taxed once on the level of property tax and secondly on the level of rental income.<sup>128</sup> This is providing that net wealth taxation is not levied. Even more obscure situation arises if rental income of Person 1 would be imputed for owner-occupied residential property. Person 1 would not have any tangible income, hence in comparison to Person 2 his ability would be lower but his tax liability higher.

---

<sup>125</sup> Richard Musgrave and Peggy Musgrave, *Public Finance in theory and practice* 1989, (McGraw-Hill International Editions: New York 5th Ed.), p.412

<sup>126</sup> James Mirrlees et al., *Tax by Design: the Mirrlees Review* (Oxford University Press: September 2011), ISBN: 978-0-19-955374-7, p.368

<sup>127</sup> See analyses of Adam Chodorow, *Ability to Pay and the Taxation of Virtual Income* 2008 Volume 75 Tennessee Law Review 695-752

<sup>128</sup> Nicolaus Tideman, *Land and Taxation* 1994 (Centre for Incentive Taxation: London), p.106 and 126

## 5.2.2 The benefit considerations and redistribution

The second and third mentioned rationales for net wealth tax were the benefit considerations and redistribution within the society. No additional separate analysis is required for property taxation since findings are mutually applicable apart of a brief remark, that benefit argument cannot propose any justification whatsoever for taxation of land or property that is unoccupied or otherwise utilised by an individual or corporate entity. On the contrary, an exemption for unused land or property is in practice particularly rare.

## 5.2.3 Positive effects on economy

Lastly, positive effects of property taxation shall be examined. Similarly to net wealth tax, property taxation has a potential to: improve economic efficiency by inducing a taxpayer to look for more profitable investments in order to counter-balance costs of the additional taxation; and to reduce inequalities within the society what in turn might have detrimental effects on the growth rate.

In addition, if property tax were a substitute to another more harmful tax which distorts economic behaviour more significantly, its existence would have a positive effect on economy. Economists are uniform in their support for taxation of land. If taxed distinct to value of property on it, it could be taxed at arbitrarily high rate without discouraging any desirable activity. This based in the fact that supply of land is fixed and cannot be changed by a levy on land. Secondly, *'with the same amount of land available, people would not be willing to pay any more for it than before, so (the present value of) a land value tax (LVT) would be reflected one-for-one in a lower price of land: the classic example of tax capitalization.'*<sup>129</sup> Johansson et al. suggest that transfer of one percent of income tax to property tax would have positive change on economic growth of up to one percent.<sup>130</sup>

Mirrless et al. also argue that taxation of residential dwellings would eliminate distortion in favour of owner-occupier which is currently caused by lack of such taxation. According to their view, housing is consumption and because it is VAT exempt, it shall be taxed in other way.

## 5.3 Negatives of property tax implementation

### 5.3.1 Negative effects on economy

In contrast to taxation of land and residential dwellings which would arguably either cure current distortions of economic behaviour or not cause such distortions, this positive effect

---

<sup>129</sup> James Mirrlees et al., *'Tax by Design: the Mirrlees Review'* (Oxford University Press: September 2011), ISBN: 978-0-19-955374-7, p.371

<sup>130</sup> Asa Johansson et al., *'Tax and Economic Growth'* 2008, (OECD Economics Department working paper no 620: Paris), p.42

cannot be said about taxation of business premises which would certainly lead to dead weight loss in economy.<sup>131</sup>

### 5.3.2 Administrative costs and avoidance

Musgrave and other economists<sup>132</sup> believe that operating costs of the property tax might be high, particularly if valuations of properties shall be made on comprehensibly detailed and periodic basis.<sup>133</sup> It was already mentioned that there is a problem of a valuation of self-occupied property which has not been on the market for decades which is the main asset of the middle class household in the United Kingdom, not mentioning hope value of particular land.<sup>134</sup>

It was suggested above that taxation of land makes a perfect economic sense due to fixed amount of supply and virtually inflexible price. It is nevertheless exceptionally problematic to separate value of land and property built on that land.<sup>135</sup> This appears to be a formidable task and presents a crack in taxation of land only.

Lastly, considerations to potential tax avoidance shall be given. Complications with deductible liabilities were already discussed above in the subsection 4.4.2, similarly as the conclusion that gross value of property for tax assessment purposes would not be beneficial. Moreover, there is an additional potential for avoidance. Economists are not sure which forms of a real estate shall be included for the property taxation purposes. If property taxation encompassed all types including business property, it would be uniformly practical to apply it yet it would distort economic behaviour. On the other hand, if business property was exempted, taxpayers might be encouraged to ‘envelope’ residential buildings by corporate entities and in this way avoid annual payments of property tax. Naturally, measures may be taken to counter such avoidance, similar to the ‘Annual Tax on Enveloped Dwellings’ (ATED) introduced by Finance Bill 2013 which came into effect on 1 April 2013, however that would significantly increase administration and compliance costs of that tax.

### 5.3.3 Fairness considerations

If the property tax were implemented in the form discussed in this chapter, it would be a rather inequitable tax. This statement is based on the assumption that other forms of investments such as savings or other intangible assets producing an income would not be subject to additional levy in contrast to a property, regardless whether it produces and income or not. This would lead to horizontal inequality since those of the same ability to contribute

---

<sup>131</sup> James Mirrlees et al., ‘*Tax by Design: the Mirrlees Review*’ (Oxford University Press: September 2011), ISBN: 978-0-19-955374-7, pp.376-377

<sup>132</sup> William MacCluskey and Riel Franzsen, ‘*Land value taxation: an applied analysis*’ 2005 (Ashgate Publishing Ltd: Aldershot)

<sup>133</sup> Richard Musgrave and Peggy Musgrave, ‘*Public Finance in theory and practice*’ 1989, (McGraw-Hill International Editions: New York 5th Ed.), pp.412-413

<sup>134</sup> Robin Boadway et al., ‘*Chapter: 8 Taxation of Wealth and Wealth Transfers*’ 2011, Mirrlees Review, (Oxford University Press: September 2011), p.784

<sup>135</sup> Richard Bird and Naomi Slack, ‘*International Handbook Of Land And Property Taxation*’ 2004, (Edward Elgar Publishing: Cheltenham) p.120



are taxed differently.<sup>136</sup> Subsequently, vertical equality of the system would only hardly be sustained.<sup>137</sup>

## 5.4 Conclusion

It was demonstrated that property tax shares number of common advantages and disadvantages with net wealth tax. The main advantage of property tax appears to be relatively small distortion of economic behaviour which is attributable especially to land tax. Redistribution of wealth within the society may be a plausible rationale for its implementation. Fuelled by the redistribution considerations, the government has already tackled high value residential properties. It has increased Stamp Duty on residential properties of the value over £2M bought by corporate entities to 15%; increased charge to capital gains tax on 28% for a disposal of residential properties of value over £2M held by corporate owners; and introduced Annual Tax on Enveloped Dwellings.<sup>138</sup> On the other hand, rationales for implementation of property tax based the ability to pay principle are not persuasive. Neither horizontal equity nor vertical equity would be guaranteed in the system providing other forms of investments are not taxed similarly. In comparison to net wealth tax, administration and avoidance of property tax is lower yet still problems with divergence of land and property value or annual valuation of properties must be taken with caution.

Finally, two following considerations shall be made. Commentators incline to be supporting taxation of residential dwellings based on the theory that housing is form of consumption therefore it shall be taxed accordingly. It appears to be simpler and less burdensome solution to impose VAT on newly built houses regardless its potential distorting effect on market. Secondly, it was mentioned in the subsection of benefit considerations that an owner of the property does nothing for an increase of the value of its property in contrast to community which invests in local infrastructure and other services. Hence, it should be incorrect for an owner to benefit from it without a contribution. Counter argument to this statement however might be an existence of capital gains tax on disposal of properties which is currently in force. Taxation of an increased property value at the moment of an increase is merely deferred until the point when the owner decides to dispose this property. In overall, the current tax system requires, on deferred basis, an owner to contribute for an increase of the value of his property caused by provision of public services.

## 6 Discussion

Based on conclusions of previous chapters of the paper, this chapter will be dedicated to comparative analyses of Council tax vs. property tax; and wealth transfer taxes of the current system vs. net wealth tax.

---

<sup>136</sup> Nicolaus Tideman, 'Land and Taxation' 1994 (Centre for Incentive Taxation: London), p.106 and 126

<sup>137</sup> Mark Sunderman, 'Testing for Vertical Inequity in Property Tax Systems' 1990 Volume 5, Number 3  
Journal of Real Estate Research 319-334

<sup>138</sup> Property Law Bulletin (S&M), 'Tax bulletin: latest on the tax attacks on high value residential property: the new annual residential property tax, the new 28 per cent charge to capital gains tax and SDLT at 15 per cent' 2013 Volume 33 Issue 10 P.L.B. 77-79

## 6.1 Council tax vs. property tax

Both Council and property taxes are not ideal forms of taxation hence it would be tricky to conclude whether property tax is an apparent alternative to the current version of Council tax. Indeed, without a major reform these taxes cannot run in conjunction with each other since both of them would target the same tax base. Council tax is a no doubt spine of local council finances and funds inevitable local services. As a hybrid tax, to certain level it already combines characteristics of a property tax, yet by charging only residential dwellings it leaves business premises and land separately untaxed. The most vocal argument for implementation of property tax on dwellings is that it is equal to other forms of consumption. Council tax already fulfils this function. Naturally, one might argue that introduction of VAT on newly built dwellings would be sufficient.

On the other hand, Council tax is literally inequitable tax, both horizontally and vertically, because it is regressive. While the analysis of property tax in this paper suggested that property tax would not be flawlessly equitable in contrast to other forms of investments, it would be more equitable within the same range of other properties since the amount of charge would rise *pari passu* to value of property. Hence, the horizontal and vertical equality would remain.

The correct solution appears to lie in between. If Council tax would adopt progressivity nature of property tax and include arbitrarily high taxation of land but remains to partially be a tax on consumption with low operating costs, it would be a more equitable tax which would potentially bring more revenue without distortion of an economic behaviour.

## 6.2 Wealth transfer taxes vs. net wealth tax

Two forms of wealth transfer taxes of the current tax system in the United Kingdom were discussed, Inheritance tax and Stamp Duty land tax. Both of these taxes were heavily criticised and author has not found credible arguments for their existence. Their combined revenue is less than one and half percent of total receipts hence their economic significance is marginal. Inheritance tax was found to be entirely inequitable and easy to avoid. Whereas SDLT were analysed to be equitable and fairly efficient tax in respect of operating costs and amount of potential avoidance, it has immense detrimental effects on economy through distortion of economic behaviour what leads to decreased efficiency and lower economic output.

For comparison of wealth transfer taxes, net wealth tax is used. The paper has shown that net wealth shall be taxed additionally based on pay-ability principle and positive effects of the tax which helps redistribution of the wealth in the society and decreases inequalities. Besides, its enormous tax base in contrast to Inheritance tax and SDLT is attractive for any government. These advantages however do not outweigh its drawbacks. Evidence clarified that net wealth tax is responsible for dumped growth rate and decreased investments into human capital. Moreover, high administrative and practical constraints make author to do not counsel an implementation of net wealth tax in the United Kingdom.

In general, the author proposes to abolish both Inheritance tax and SDLT based on arguments mentioned earlier. Still, an implementation of net wealth tax is not advisable. Since paper had endeavoured to discuss revenue-neutral suggestions, the marginal windfall loss of revenue of one and half percent caused by abolition of wealth transfer taxes could be substituted by higher revenue from amended Council tax.

## **7 Concluding remarks**

In the current times of severe economic downturn of the world economy, politicians, public and media discuss on daily basis an introduction of alternative forms of taxation which have potential to increase revenue for the government. Net wealth and property taxation belongs to the most popular ones and are described by some as ideally equitable, efficient and unavoidable taxes. This paper has analysed whether net wealth and property taxation would be the right solution for the government's attempt to decrease the budget deficit and the alternative to other forms of taxation applied in the current system. Particularly, property tax was compared to current Council tax and net wealth tax was contrasted to two current wealth transfer taxes- Inheritance and Stamp Duty land tax.

The thesis firstly discussed key features of desirable tax system and then methodically applied each form of the taxation towards this framework. Special attention was given to horizontal and vertical equality of the system; efficiency; administration and compliance costs; and finally potential for tax avoidance. While this topic is situated in the context of the current pressurised political and economic situation in the United Kingdom, political assumptions were limited to minimum, unavoidable level. In contrast, the subject was analysed from perspectives of legal theory, economic and social reflection aspects. Notwithstanding this, the paper was a public finance research with the main focus of analysing and designing optimal taxation for the United Kingdom.

In line with the original hypothesis, this research concluded that net wealth tax is not as ideal form of taxation as it is perceived by its supporters. While there are credible rationales for its introduction, its negative aspects are undeniable and in the opinion of the author prevail over positives. Rather surprisingly, the author has also established that current forms of wealth transfer taxes shall be abolished even though it might cause a marginal windfall loss of tax revenue. Alternatives to cover this dropout were briefly suggested. The outcome of property tax analysis is slightly more ambiguous. Still, its introduction which would be a substitution or mere addition to highly criticised Council tax is not suggested. The author on the other hand proposed to merge positive factors of these two forms of taxation and also to tax land separately.

Outcomes of this study shall be treated as provisional and read with a caution due to limited amount of resources and alien empirical data used. This research was mainly based on fundamental theoretical and academic principles of taxation rather than own empirical research. For further more detailed research it would be desirable to acquire precise data covering effects of the net wealth transfer tax; the amount of the current tax avoidance; the estimate of tax revenue of the property and net wealth tax if it would be implemented; and the

estimate amount of potential avoidance of such taxes. Secondly, this thesis has not taken into account political constraints which might affect plausibility of introduction or abolition of a particular tax. For instance, net wealth tax or property tax for dwellings of high value is a politically attractive theme and practical considerations might be disregarded. Analogically, the author suggested abolition of Stamp Duty land tax, however since many developed economies apply similar form of property transaction tax, there is only small possibility for its abandonment in the current economic climate.

## Bibliography

### Academic Journals:

Adam Chodorow, '*Ability to Pay and the Taxation of Virtual Income*' 2008 Volume 75 Tennessee Law Review 695-752

Anne Alstott, '*Uneasy Liberal Case against Income and Wealth Transfer Taxation: A Response to Professor McCaffery*' 1996, Volume 51 Tax. L. Rev. 363-380

Anthony O'Sullivan and Kenneth Gibb, '*Housing Taxation and the Economic Benefits of Homeownership*' 2012, Volume 27, Issue 2 Housing Studies pp. 267-279

Åsa Hansson, '*Is the Wealth Tax Harmful to Economic Growth?*' 2010, February World Tax Journal 19-34

Åsa Hansson, '*The Wealth Tax and Entrepreneurial Activity*' 2008, Volume 17, Issue 2 Journal of Entrepreneurship 139-156

Chris Evans, '*Studying the studies: an overview of recent research into taxation operating costs*' 2003, Volume 1 Journal of Tax Research 64-92

Christer Silfverberg, '*The Swedish Net Wealth Tax – Main Features and Problems*' 2002, No.44 Scandinavian studies in law, ISSN 0085-5944, 367-374

Christian Hilber and Teemu Lyytikäinen, '*Stamp duty and household mobility: Regression discontinuity evidence from the UK*' 2012, accessed online via <http://www.ieb.ub.edu/aplicacio/fitxers/WS12Hilber.pdf> 1-19;

Douglas Bernheim and Antonio Rangel, '*Beyond Revealed Preference: Choice-Theoretic Foundations for Behavioral Welfare Economics*' 2009, Volume 124, Issue 1 The Quarterly Journal of Economics 51-104,

Edward Stringham, '*Kaldor-Hicks efficiency and the problem of central planning*' 2001, Volume 4, Number 2 Quarterly Journal of Austrian Economics 41-50

Howard Glennerster, '*Why Was a Wealth Tax for the UK Abandoned? Lessons for the Policy Process and Tackling Wealth Inequality*' 2012, 41 Journal of Social Policy 233-249

Jan Schnellenbach, '*The Economics of Taxing Net Wealth: A Survey of the Issues*' 2012, Volume 12 (4) Public Finance and Management 1-37

Jean Arnold et al., '*Tax Policy for Economic Recovery and Growth*' 2011, Volume 121, Issue 550 The Economic Journal 59-80

Joel Slemrod, '*Tax avoidance, evasion, and administration*' 2002 Volume 3 Handbook of Public Economics 1423-1470

- Jukka Pirttila, *'Tax Evasion and Economies in Transition: Lessons from Tax Theory'* 1999, Bank of Finland; Center for Economic Studies and Ifo Institute for Economic Research, Discussion Paper No. 2/1999, 1-43
- Luminita Ristea and Adina Trandafir, *'Wealth Tax Within Europe In The Context Of A Possible Implementation In Romania – The Existing Wealth Tax And Its Decline In Europe'* 2010, Volume 10 Issue 2 Annals of the University of Petrosani, Economics 299-306
- Mark Sunderman, *'Testing for Vertical Inequity in Property Tax Systems'* 1990 Volume 5, Number 3 Journal of Real Estate Research 319-334
- Martin Besfamille and Cecilia Sirrito, *'Modernization of Tax Administrations and Optimal Fiscal Policies'* 2009, Volume 9 Issue 6 Journal of Public Economic Theory 897-926
- Martin Feldstein, *'On the theory of tax reform'* 1976, Volume 6, Issue 1-2 Journal of Public Economics 77-104
- Martin Feldstein, *'Tax Avoidance and the Deadweight Loss of the Income Tax'* 1999 Volume 81 The Review of Economics and Statistics 674-680
- Michael Best and Henrik Kleven, *'Housing Market Responses to Transaction Taxes: Evidence From Notches and Stimulus in the UK'* 2013, accessed online via [http://personal.lse.ac.uk/BESTM/research/best-kleven\\_landnotches\\_april2013.pdf](http://personal.lse.ac.uk/BESTM/research/best-kleven_landnotches_april2013.pdf) 1-44
- Naranaya Kocherkalakota, *'Zero Expected Wealth Taxes: A Mirrlees Approach to Dynamic Optimal Taxation'* 2005, Volume 73 Number 5 Econometrica 1587-1621
- Nick Pearce, *'Rethinking fairness'* 2007, Volume 14(1) Public Policy Research 11-22
- Orsetta Causa and Åsa Johansson, *'Intergenerational Social Mobility in OECD Countries'* 2010, Volume 2010 OECD Journal: Economic Studies 1-44
- Paul Clark, *'Many happy returns'* 2013, 1 The Conveyancer and Property Lawyer 7-16
- Peadar Davis et al., *'An empirical analysis of simplified valuation approaches for residential property tax purposes'* 2012, Volume 30, Issue 3 Property Management, pp. 232-254
- Peter Diamond and Emmanuel Saez, *'The Case for a Progressive Tax: From Basic Research to Policy Recommendations'* 2011, August: CESifo Working Paper Series No. 3548 1-45,
- Philip Trostel, *'The Effect of Taxation on Human Capital'* 1993, 101 Journal of Political Economy 327-350
- Property Law Bulletin (S&M), *'Tax bulletin: latest on the tax attacks on high value residential property: the new annual residential property tax, the new 28 per cent charge to capital gains tax and SDLT at 15 per cent'* 2013 Volume 33 Issue 10 P.L.B. 77-79

Rajiv Prabhakar, '*Wealth Taxes: Stories, Metaphors and Public Attitudes*' 2008, April-June, Vol. 79 *The Political Quarterly* 172-178

Sonja Pippin et al., '*Property tax and other wealth taxes internationally: Evidence from OECD countries*' 2010, Volume 19 *Advances in Taxation* 145-169

Stefan Folster and Magnus Henrekson, '*Growth Effects of Government Expenditure and Taxation in Rich Countries*' 2001, Volume 45, Number 8 *European Economic Review* 1-18

Tony Dolphin, '*Death and Taxes: Why Inheritance Tax should be replaced with a Capital Receipts Tax*' 2010, Institute for Public Policy and Research, accessed via [http://www.ippr.org/images/media/files/publication/2011/05/Death%20and%20Taxes%20Dec2010\\_1818.pdf](http://www.ippr.org/images/media/files/publication/2011/05/Death%20and%20Taxes%20Dec2010_1818.pdf) >

Torsten Persson and Guido Tabellini, '*Is Inequality Harmful for Growth?*' 1994, 84 *American Economic Review* 600-621

Toshihiro Ihuri, '*Wealth taxation and economic growth*' 2001, Volume 79 *Journal of Public Economics* 129-148

Ugo Panizza, '*Income Inequality and Economic Growth: Evidence from American Data*' 2002, 7 *Journal of Economic Growth* 25-41

Walter Block, '*Public Finance Texts Cannot Justify Government Taxation: A Critique*' 2011 36 *Canadian Public Administration* 252-262

Walter Kickert, '*How the UK government responded to the fiscal crisis: an outsider's view*' 2012, Volume 32, Issue 3 *Public Money & Management* 169-176

Waly Wane, '*The optimal income tax when poverty is a public 'bad''*' 2001, Volume 82, Issue 2 *Journal of Public Economics* 271-299

### **Books:**

Adam Smith, '*Wealth of Nations*' 1776

Asa Johansson et al., '*Tax and Economic Growth*' 2008, (OECD Economics Department working paper no 620: Paris)

Borys Grochulski and Tomasz Piskorski, '*Optimal Wealth Taxes with Risky Human Capital*' 2006, No 59 *Society for Economic Dynamics: Meeting Papers*

Cedric Sandford, '*Taxing personal Wealth: An Analysis of Capital Taxation in the United Kingdom*' 1971 (Allen & Unwin: London)

Chris Jones, '*Applied Welfare Economics*' 2005 (Oxford University Press: Oxford)

Gregory Mankiw et al., '*Optimal Taxation in Theory and Practice*' 2009, The National Bureau of Economic Research: Working Paper No.15071

Hal Pawson and Steve Wilcox, '*UK Housing Review: Briefing Paper*' 2012, (Chartered Institute of Housing: Coventry)

Harvey Rosen and Ted Gayer, '*Public Finance*' 2007, (McGraw-Hill: New York 8<sup>th</sup> Edition)

Harvey Rosen, '*Readings in Public Choice and Constitutional Political Economy: Chapter 22-Public Finance*' 2008, (Springer: Fairfax) ISBN-10: 0387745742

James Mirrlees et al., '*Tax by Design: the Mirrlees Review*' (Oxford University Press: September 2011), ISBN: 978-0-19-955374-7

Joel Slemrod, '*Tax Progressivity and Income Inequality*' 1996, (Cambridge University Press: Cambridge)

John Hills et al., '*An anatomy of economic inequality in the UK: Report of the National Equality Panel*' 2010, (Centre for Analysis of Social Exclusion: London), accessed online via <http://webarhive.nationalarchives.gov.uk/20100212235759/http://www.equalities.gov.uk/pdf/NEP%20Report%20bookmarkedfinal.pdf>

John Rawls, '*A theory of justice*' 1999 (Harvard University Press: Harvard)

Jonathan Shaw et al., '*Chapter: 12 Administration and Compliance*' 2010, Mirrlees Review, (Oxford University Press: April 2010)

Kayte Lawton and Howard Reed, '*Property and Wealth Taxes in the UK, The context for reform*' 2013, Institute for Public Policy and Research: Discussion paper

Knud Munk, '*Tax-tariff reform with costs of tax administration*' 2008, Volume 15 Issue 6 International Tax and Public Finance 647-667

Morton Horwitz, '*The Transformation of American Law, 1870-1960 : The Crisis of Legal Orthodoxy*' 1992, (Oxford University Press: Oxford)

Nicolaus Tideman, '*Land and Taxation*' 1994 (Centre for Incentive Taxation: London)

Richard Bird and Naomi Slack, '*International Handbook Of Land And Property Taxation*' 2004, (Edward Elgar Publishing: Cheltenham)

Richard Goode, '*Government Finance in Developing Countries*' 1984, p.133

Richard Musgrave and Peggy Musgrave, '*Public Finance in theory and practice*' 1989, (McGraw-Hill International Editions: New York 5<sup>th</sup> Ed.)

Robin Boadway et al., '*Chapter: 8 Taxation of Wealth and Wealth Transfers*' 2011, Mirrlees Review, (Oxford University Press: September 2011)



Russell Sobel, *Handbook of Public Finance*, 2006 (Kluwer, Chapter 2- Welfare Economics and Public Finance)

Stephen Ackroyd, 'Critical Realism, Organization Theory, Methodology, and the Emerging Science of Reconfiguration' 2010, (Springer Berlin: Heidelberg)

Sven-Olof Lodin, *The Making of Tax Law: the Development of the Swedish Tax System* 2011 (IBFD: Amsterdam)

Victor Thuronyi, *Tax Law Design and Drafting* 1996, Volume 1, International Monetary Fund: Chapter 10- Taxation of Wealth

William MacCluskey and Riel Franzsen, *Land value taxation: an applied analysis* 2005 (Ashgate Publishing Ltd: Aldershot)

William MacCluskey et al., *A Primer on Property Tax: Administration and Policy* 2013 (Wiley-Blackwell: Chichester, 1<sup>st</sup> Edition)

#### **Other sources:**

BBC official website, 'Lib Dem conference: Clegg promises to push for wealth tax' 23 September 2013, accessed via <<http://www.bbc.co.uk/news/uk-politics-19690327>>

BBC official website, 'UK economy avoids triple-dip recession' 25 April 2013, accessed via <<http://www.bbc.co.uk/news/business-22290407>>

Chris Evans, 'Counting the costs of taxation: an exploration of recent developments' 2006, in *London School of Economics Capital Markets seminar series* presented at London School of Economics Capital Markets seminar series, London, England, 16 October 2006

Labour Party, 'Wealth Tax Green Paper' 1974 Labour Party: London

Office for National Statistics- official website, 'South East has biggest share of the wealthiest households' 03 December 2012, accessed via < <http://www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-2/wealth-of-the-wealthiest--2008-10/wealth-of-the-wealthiest-households--great-britain--2008-10.html>>

Office for National Statistics- official website, 'Statistical bulletin: Public Sector Finances, March 2013' 23 April 2013, accessed via < <http://www.ons.gov.uk/ons/rel/psa/public-sector-finances/march-2013/stb---march-2013.html#tab=Public-sector-net-borrowing>>

The Office for Budget Responsibility, 'Economic and fiscal outlook' 2012, accessed via < <http://budgetresponsibility.independent.gov.uk/wordpress/docs/March-2012-EFO1.pdf>>

The official website of HMRC, 'Annual Tax on Enveloped Dwellings - the basics' 2013, accessed online via < <http://www.hmrc.gov.uk/ated/basics.htm#1>>

The official website of HMRC, '*Taxation of high-value UK residential property held by certain non-natural persons*' 2013, accessed online via  
<<http://www.hmrc.gov.uk/budget2013/tiin-1182.pdf>>