WIN-WIN-WIN

How taxing wealth can maximise revenue, boost fairness and support economic growth

FAIRNESS FOUNDATION

Briefing note for parliamentarians | 15 October 2025

SUMMARY: This comprehensive report from two leading academics, Martin O'Neill (Professor of Political Philosophy at the University of York) and Howard Reed (Professor of Public Policy at Northumbria University Newcastle and Director of Landman Economics), sets out an evidence-based case for how taxing wealth can reduce inequality and promote sustainable growth. It suggests that MPs should consider both reforms to existing taxes and new wealth taxes, as well as broader policy responses to the impacts of wealth inequality.

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Key points

- High levels of wealth inequality are not only morally troubling but are actively damaging our society, our democracy, and our economy, and are holding back the prospects for boosting economic growth.
- Wealth inequality damages equal opportunity, social status, democracy, and the distribution of power.
- Wealth concentrated in the hands of a few individuals perpetuates unfair advantages across generations, exacerbates social and regional divides, and disproportionately benefits certain groups at the expense of the 50% of the population who own practically no wealth.
- Wealth inequality distorts the economy and undermines growth, by enabling and incentivising wealth extraction at the expense of genuine wealth creation. It reduces consumer demand, blocks opportunity, and wastes talent, while undermining competition through the development of oligopolies.
- We under-tax wealth in the UK significantly compared to income, and we only generate a tiny proportion of government revenues from taxes on wealth.
- Many existing taxes on wealth - such as capital gains tax, inheritance tax and council tax – unfairly enable some people to pay much less tax than others for arbitrary reasons, losing the government revenue while exacerbating wealth inequality and creating distortions that directly harm growth.
- In November's Budget, the Chancellor has an opportunity to achieve a win-win-win by reforming these existing taxes on wealth – increasing fairness (and reducing wealth inequality), generating additional revenues, and boosting economic growth.
- This set of well-evidenced, feasible and popular reforms should be accompanied by investing more in HMRC's capacity to collect the full amount of taxes due from wealthy individuals.
- Introducing a one-off or annual wealth tax would be challenging but not impossible, and could raise revenues and reduce wealth inequality to an extent that is not possible with existing taxes alone.

How wealth inequality harms our society and democracy

- **Undermines opportunity:** Those who enjoy a large share of wealth are able to buy greater advantages for their descendants.
- **Creates inequalities of social status:** Access to hugely different levels of wealth puts people into vastly different kinds of social worlds, creates alienating social distance between people, and drives stigmatising differences in social status.
- **Disrupts faith in democracy:** Wealthier citizens can convert their greater economic resources into greater political power, in a way that undermines the fairness of democratic procedures.
- **Concentrates power:** Inequality in economic resources is typically accompanied by inequalities of power.
- **Threatens intergenerational inequality:** The distribution of wealth skews heavily in favour of older citizens, and the intergenerational age gap has widened significantly in recent years.
- **Limits access to assets:** Access to even small amounts of wealth can provide a buffer during transition periods, foster opportunities, and free individuals from the pressure of surviving from month to month.

How wealth inequality undermines economic growth

- **Reduces demand:** When inequality is high, income tends to accumulate disproportionately among the wealthiest, diminishing the spending power of the majority, who are less affluent.
- **Reduces investment in education and entrepreneurship:** Wealth inequality hampers growth by limiting educational opportunities for low-income families, decreasing the overall accumulation of human capital in the economy and leading to unequal opportunities for education, training and entrepreneurship.
- **Extracts wealth:** A financialised economy more focused on wealth extraction than wealth creation reduces innovation, dynamism and productivity.
- **Undermines competition:** Wealth concentration goes hand-in-hand with a lack of competition in markets, benefiting incumbent companies at the expense of new entrants and suppressing growth.

Reforming existing taxes on wealth and introducing new taxes

- The UK has a range of **taxes on transfers of assets** which are components of wealth, including inheritance tax (levied on the estates of the deceased), capital gains tax (levied on financial assets when they are sold) and stamp duty (levied on house purchases above a threshold property value).
- A series of **reforms** have been proposed for each of the existing taxes, which collectively could raise several billions of pounds of much-needed revenue for the Treasury (see table below).
- Wealth is taxed relatively lightly compared to income (at an average rate of 4% compared to 33% for income), in part because of differentials in the rates of capital gains tax compared to income tax.
- The LSE Wealth Tax Commission recommended a **one-off tax on wealth**, and also assessed the case for a recurring wealth tax on an annual basis; our report looks at both options in some detail.

The benefits of reforming existing taxes on wealth

Reform	Details	Inequality impacts	Growth impacts	Revenues
Equalise and reform capital gains tax	Equalise capital gains tax rates with income tax, introduce an allowance to drive investment, an exit tax on people leaving the UK, & end relief for inherited assets	Equalises taxation on income from work and wealth, redistributing a degree of excess wealth	Ends productivity drag from shifting employment income into capital gains and removes other distortions; investment allowance removes disincentive to invest	£11.3 billion per year
Widen the scope of national insurance	Apply NICs to rental income and apply equivalent of employer NICs to partnership income	Equalises taxation on income from work, property rent and partnerships, redistributing some excess wealth	NICs on rental income reduce incentive to invest in unproductive assets (e.g. real estate) at expense of more productive assets	£5.1 billion per year (£3.2bn from rental income, £1.9bn from partnership income)
Reform property taxes	Introduce proportional property tax on homes over £2m & council tax premium on non-UK residents' second homes	Makes property taxation fairer, as council tax is regressive	Council tax premium could reduce house prices by discouraging purchase of investment properties	£1.7 billion per year (£1.5bn from proportional property tax, £0.2bn from council tax premium)

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