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Paying for the Pandemic

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About Future Economies

Future Economies, a university centre for research and knowledge exchange based at Manchester Metropolitan University, brings together academics from a wide range of disciplinary backgrounds, alongside policy and business practitioners, to conduct research into local, national and global economic challenges, ranging from Brexit, financial crisis, devolution and local industrial strategies to mega-sporting events and trade governance. Future Economies has a particular expertise in political economy and behavioural economics, and also encompasses Future Economies Analytics, the Centre for Policy Modelling and the Sports Policy Unit.

All views expressed in this paper are those of the author, and are not necessarily shared by Future Economies or Manchester Metropolitan University.

Summary

- Coping with the medical and economic fallout of the coronavirus pandemic has required a massive surge in UK public spending, at a time when tax receipts look set to plummet as a result of the lockdown. This Future Economies Research and Policy Paper examines how policymakers might reconfigure the UK tax system in the wake of the crisis – while recognising that the precise extent to which tax rises are needed will depend upon shifts in the cost of government borrowing, and the evolving relationship between fiscal and monetary policy.

- Any discussion of the UK's fiscal response to the pandemic must start from an appraisal of the pre-pandemic status quo: itself a legacy of the global financial crisis, and the way in which UK policymakers chose to respond to it. Deficit reduction over the last ten years relied overwhelmingly upon spending cuts, suggesting that there is limited scope for further reductions in expenditure in the aftermath of the present crisis.

- There are strong grounds for considering a one-off wealth tax to fund some of the fiscal costs of the present crisis. Normatively, it is people who accumulated assets in the pre-crisis period who are enjoying higher levels of government spending on healthcare provision and social insurance than they have historically paid for, justifying a windfall levy on their under-taxed wealth. Practically, future taxpayers may struggle to finance additional spending on more resilient public services if they are simultaneously expected to foot the bill for the present crisis.

- Post-crisis, the UK tax system and fiscal framework should be reformed to improve the resilience of households, businesses, and the public sector. This could involve cultivating a more expansive conception of social insurance, encouraging the corporate sector to rely more heavily upon equity finance, and recognising everyday government spending in areas such as healthcare as a vital form of long-term investment in the UK economy.

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Introduction

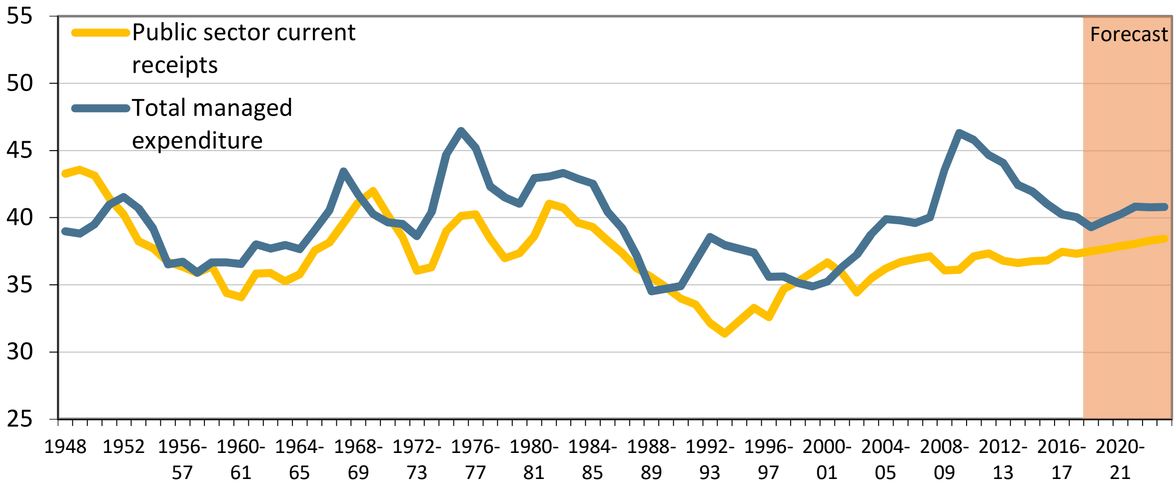
The coronavirus pandemic has exposed large gaps in the UK's healthcare system and in its socioeconomic safety net. Medical professionals lack essential protective gear; hospitals lack beds and ventilators; businesses are crumbling in the face of lockdown measures; the newly unemployed and underemployed are discovering a benefits system eroded by a decade of cuts. The government's response to the pandemic to date has been to spend: investing in new medical equipment, bailing out businesses, underwriting staffing costs, and supporting the self-employed. How should government fund this spending, over the longer term? To the extent that tax rises will be necessary, who should foot the bill?

Public finances in the inter-crisis years

Any discussion of the UK's fiscal response to the pandemic must start from an appraisal of the pre-pandemic *status quo*: itself a legacy of the global financial crisis, and the way in which UK policymakers chose to respond to it. The banking bailouts of 2008 required a massive increase in public sector debt. Stimulus measures undertaken in the immediate aftermath of the crash involved both spending increases and tax cuts. The subsequent economic downturn reduced GDP and tax revenues. The net result was a spike in the budget deficit from 2007 through to 2010 (see Figure 1).

Policymakers had three options for reducing the size of the deficit: increasing taxes, cutting public spending, or growing the economy. (They also had the option of not reducing deficit levels, or reducing them at a slower rate.) The Coalition government opted to focus on spending cuts. As Figure 1 shows, the UK's fiscal consolidation primarily took the form of reductions in public expenditure, with tax levels remaining relatively constant as a share of GDP. This fiscal consolidation strategy, when coupled with the embrace of austerity by many other leading economies, caused a precipitous fall in global demand, contributing to the anaemic nature of the subsequent economic "recovery".

Figure 1: Total government spending and receipts (% of GDP)



Source: OBR (2020) *Public finances databank*.

This is not to say that the UK tax system has gone unchanged since the onset of the financial crisis: far from it. The Coalition government introduced a number of tax hikes, largest of all being an increase in the standard rate of VAT from 17.5% to 20%, a particularly regressive form of taxation. However, these were counterbalanced by other tax giveaways, such as an increase in the amount of money individuals could earn without paying income tax, and a decrease in the headline rate of corporation tax paid by businesses on their profits. While additional taxes were levied on banks and higher earners, the revenues raised were relatively modest.

The fact that fiscal consolidation post-financial crash was primarily achieved through spending cuts means that there is little scope for further savings to pay for the pandemic. The UK government has explicitly acknowledged as much: in less than 18 months, three different Chancellors of the Exchequer have announced that the era of austerity is at an end. Consequently, the costs of paying for the pandemic must be met with some combination of higher taxes, increased public borrowing (including more or less temporary monetary financing), and higher growth. Even before the pandemic, the UK's growth prospects were not looking particularly strong, a product both of global slowdown and the government's Brexit strategy. Increased borrowing is certainly a possibility, at least for as long as global markets are willing to supply the British government with cheap money. Indeed, the precise extent to which we need to pay for the pandemic at all will depend upon shifts in the cost of government borrowing, public and policy elite attitudes towards deficits, as well as the evolving relationship between fiscal and monetary policy. Nevertheless, tax hikes of some form may well be necessary to complement additional borrowing, if government is both to fund the crisis and deliver on the spending promises that it made during the 2019 general election campaign.[1] In the remainder of this paper, I offer a series of suggestions as to how the government might approach these challenges, and the kind of policies that it might want to consider.

Wealth for health

What is striking about the present crisis is that the UK population is receiving a far higher level of public service provision than its government had been willing to bill it for in the run-up to the crisis. Medical supplies such as ventilators and personal protective equipment, which could have been purchased much more cheaply had stocks been built up over several years, are now being bought at panic prices. It transpires that unemployment insurance is not fixed at the punitively low levels associated with universal credit, but rather at 80% of people's salaries, as government takes on the payroll costs of furloughed employees. Even those of us who avoid acute medical care, and who are lucky enough to do jobs that can be readily performed remotely (such as pontificating about tax policy), benefit from the reassurance that this spending provides and the economic activity that it sustains. Much as it

[1] Even within the framework of modern monetary theory, which suggests that states with their own sovereign currencies can covertly or even directly finance far larger deficits than is conventionally thought, tax policy still plays a vital role in alleviating inflationary pressures, and ameliorating some of the unfortunate distributional side-effects arising from monetary interventions such as quantitative easing. See Andrew Baker and Richard Murphy. "Modern monetary theory and the changing role of tax in society." *Social Policy and Society* (2020): 1-16.

became obvious post-2007 that the banking sector had enjoyed massive state insurance all along, it is now clear that the wider business community and working population are also too big to fail.

Why does this matter? Simply put, it implies that we were under-taxed relative to the level of insurance we were enjoying prior to the crisis. This raises profound questions of intertemporal fairness, as well as questions of capacity to pay, that are vital to structuring the tax policy response to the pandemic. If the costs of the crisis are added to the public debt, to be serviced out of conventional future tax revenues, we are essentially saying that those who engage in economic activity after the crisis should pay for the insurance enjoyed by people prior to the crisis. This is what happened with the financial crash of 2007-2008: incomes earned in the long boom that preceded (and in many ways precipitated) that crisis contributed comparatively little towards the cost of the economic rescue package required in the wake of the crash. Some of these fortunes were made or enhanced directly by financial sector activities that would soon require a massive injection of public cash. Others benefited indirectly, from the sense of economic optimism that flowed from a financial sector eager to pump credit into the hands of businesses and households. Post-crisis, existing stocks of wealth were further enhanced by monetary policy interventions such as quantitative easing, which inflated asset prices.[2] By contrast, those who sought to enter or progress in the labour market post-crisis not only faced an era of secular stagnation and diminished opportunity; furthermore, they also bore the brunt of the consolidation effort, in the form of reduced public services.

In the wake of the pandemic, working-age people (who contribute the bulk of normal UK tax revenues) risk being hit by a double-whammy of taxation. In addition to shouldering the debts taken on by the Treasury in its efforts to pay for the cost of the emergency, they may also be expected to contribute towards ensuring the country is better prepared for such crises in the future. At a minimum, this will mean financing surge capacity for the National Health Service, expanded medical testing facilities, greater domestic capacity to produce medical equipment, drugs and vaccines, as well as more resilient supply chains for essentials such as food.

That is why there is a pressing need – both on normative grounds, and on practical grounds of ability to pay – to ensure that any post-pandemic tax rises are distributed among past and present taxpayers, rather than foisted exclusively upon future taxpayers. Perhaps the most obvious way in which income earned in the past can be taxed is through taxing wealth, which is ultimately nothing more than accumulated income and gains. Assuming the net wealth of UK households stands at around £15tn, a one-off levy of just 2% would raise £300bn – more than national insurance and VAT combined, and more than some early estimates of the fiscal cost of the crisis.[3] Where wealth is not particularly liquid (such as housing wealth), the government could take a stake in the assets in question, to be redeemed whenever they are eventually sold. Admittedly, such a levy penalises savers and investors, while

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[2] For a useful and balanced discussion of both the wealth and income effects of quantitative easing, see J Gagnon, J Leslie, F Rahman & J Smith, *Quantitative (displ)easing?: Does QE work and how should it be used next time?*, Resolution Foundation, September 2019.

[3] ONS (2019) *Total wealth in Great Britain: April 2016 to March 2018*, available at https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2016tomarch2018.

leaving people who have consumed their wealth in the past unaffected. To compensate for this, additional taxes pegged to the income and gains that people have earned over their lifetime could be introduced – such as a tax surcharge payable once people's earnings have exceeded a given lifetime threshold.[4]

Targeting household wealth in this manner will be politically difficult, to be sure. However, wealth is so unequally distributed that the bottom 50% of households could be excluded entirely from such a levy without significantly reducing revenues; conversely, a modicum of progressivity would increase the tax yield substantially.[5] Some stocks of wealth will be easier to identify, value and tax than others (property prices net of outstanding mortgages, bank accounts, ISAs, pension savings and shares in publicly-listed companies fall into the former category; classic cars, works of art, unlisted businesses and offshore trusts fall into the latter). Nevertheless, a one-off tax on household wealth seems both a legitimate and viable way in which to meet the costs of the crisis.

Funding the future

Once we have paid for the pandemic, how should the future funding needs of an expanded health service and a more comprehensive social insurance system be met? There are already many revenue-raising proposals available in the voluminous literature on tax reform, ranging from broad-based increases in the basic rates of major taxes (such as VAT and income tax), to more niche measures targeting particular groups and activities (annual wealth taxes, new forms of land taxation, and so forth). The precise package of reforms to be adopted will depend on the additional spending necessary, government's ability and desire to tolerate higher deficits, and the imperative to maintain capacity for future crisis management – not to mention the political priorities and moral worldview of the government of the day. My goal here is not to reprise these arguments. Instead, I want to focus on three measures that appear particularly apposite in the wake of the pandemic, which should play a part in any future tax reform.

Fuel duties: Over and above the pressing need to transition towards a carbon neutral economy, the global slowdown presents an ideal opportunity for the UK government to raise fuel duty after a decade of freezes. Fuel prices have plummeted in recent weeks, as global demand has fallen through the floor. There is a strong argument for implementing a rise in fuel duty as soon as is legislatively possible: a rise of 5p or even 10p per litre would still leave prices well below their pre-crisis level, and so would not penalise the haulage industry, delivery drivers or other key workers who continue to rely on their vehicles during the crisis. If or when fuel prices eventually recover, attention could then turn to how best to mitigate the regressive aspects of such a tax.

[4] Nick O'Donovan (2018) "A 'lifetime income super-tax' offers a new way to tax wealth and fix inequality", *The Conversation*, available at https://theconversation.com/a-lifetime-income-super-tax-offers-a-new-way-to-tax-wealth-and-fix-inequality-108773

[5] A more detailed estimate of the revenues that could potentially be generated by a one-off wealth tax can be found in Appendix 1.

Social insurance: The crisis has seen a massive extension of social insurance to all parts of the working population. The self-employed in particular are receiving grants over and above any income they make during the lockdown, pegged against their prior earnings. HM Treasury has already mooted that a likely corollary of this generous funding package will be to bring the tax treatment of the self-employed in-line with that of employees. On 26 March, as an aside to his announcement of the Self-Employment Income Support Scheme, the Chancellor remarked that "it is now much harder to justify the inconsistent contributions between people of different employment statuses": if they receive the same benefits, so the argument goes, they should make the same kind of contribution.[6]

At a minimum, that implies charging self-employed people the same rates of national insurance as employees – a move deemed politically impossible as recently as March 2017, when Philip Hammond performed a U-turn on a rate increase in his first Budget as Chancellor. More radically, it could imply an equalisation in the tax treatment of all forms of personal income – including dividends and capital gains, which are currently outside the scope of national insurance. Combining income tax, national insurance and capital gains into a single "income and insurance tax" payment would simplify the tax system, reduce opportunities for tax planning (as dividends, gains, self-employment and employment income would all be taxed at the same rate), and improve the progressivity of the tax system (as it is often the highest earners who are best able to capitalise on tax planning opportunities). It would also mean that comparatively affluent retirees would contribute more than they would otherwise, funding the improved health and social protection that they will enjoy in the post-pandemic world.

If the Treasury is serious about levelling up the tax system, so that people of different employment statuses confront the same set of rules, then it will need to ensure that the safety net that it is presently weaving is truly comprehensive. At the time of writing, the protection afforded to people outside conventional employment structures is patchy. Individuals who take their pay in the form of dividends from the companies they own and operate are presently not entitled to any income protection. Similarly, Self-Employment Income Support Scheme grants are not available to people whose past trading profits exceed £50,000, whereas furloughed employees earning above this amount are still eligible for the Coronavirus Job Retention Scheme. Genuine equality of treatment would pave the way for broadening the tax base, and should not cost a great deal more given payments are capped at £2,500 per month anyway, and most self-employed individuals earn less than £50,000 a year. (The cost could also be lowered by insisting the self-employed offset this amount against any revenues earned during the lockdown: auditing these declarations will be administratively challenging, but not altogether impossible.)

To be sure, such a reform cuts against the grain of recent fiscal policy. Prevailing expert wisdom has it that such measures are poorly targeted, and limited state resources would be better spent helping only the neediest households. This outlook neglects the fact that the narrowing of state support to the neediest weakens the social contract upon which such transfers are predicated. Over the last few decades, the value of social insurance to middle- and higher-income households has dwindled, partly

[6] Kevin Schofield (2020) "Rishi Sunak unveils £9bn scheme to help self-employed survive coronavirus outbreak", *Politics Home*, available at: https://www.politicshome.com/news/article/selfemployed-people-to-have-80-of-their-wages-covered-by-the-government-during-coronavirus-outbreak

because they have been shielded from much of the economic precariousness experienced by their poorer-paid peers, partly because certain forms of support (such as child benefit) have been deliberately withdrawn in cost-saving drives on the part of the state. It is surely no coincidence that hostility towards state benefits (and the taxes necessary to fund them) has risen over the same period: a burgeoning literature suggests that people are more willing to contribute to public services and social security schemes when they feel the benefits of this spending themselves.[7]

Corporate resilience: As in the global financial crisis before it, the pandemic has exposed how reliant many corporations are on debt, and how fragile these capital structures are during economic downturns. Many companies seek to finance their operations primarily through loans and bonds, as the costs of servicing these debts are generally deductible for tax purposes, whereas no such deduction exists for equity financing (share issues and retained profits). Consequently, debt-heavy capital structures maximise post-tax profits, which companies can then distribute to their shareholders. However, such capital structures also mean that these companies face regular interest costs, which they need to keep servicing even when their revenues fall. Whereas equity-financed companies have capital buffers that can absorb losses (at least for a while), debt-dependent companies are likely to go to the wall first in any downturn. Tellingly, the pandemic has hit highly leveraged companies the hardest:[8] including the likes of airlines and real-estate companies, who often use the expensive assets they hold as security for the loans that they receive.

Such businesses represent a double cost to government. Not only does the Exchequer forego corporation tax on the portion of their earnings that these companies spend servicing debt; in a downturn, the state also faces the unenviable choice of either bailing them out, or seeing them collapse with all the wider costs to employees, lenders, customers and suppliers that this entails. During the credit crunch, it was easy to argue that the withdrawal of credit was the fault of the financial sector, rather than the fault of over-leveraged business models in the "real" economy. In the present pandemic, it is the non-financial sector that lacks the equity buffers needed to absorb short-term losses (though the financial sector, which is the source of many of these loans, may yet follow). To encourage greater corporate resilience in future, at a minimum government should restructure the tax system to ensure that it does not actively penalise equity funding. This could be done by allowing corporations to deduct the risk-free rate of return on their equity financing from their taxable profits – a solution which is preferable on grounds of economic efficiency, but which would lead to lower tax revenues, unless it was offset by a corresponding increase in the standard rate of corporation tax.[9] Alternatively, government could phase out the tax deductibility of corporate debt costs – which would increase revenues, but which might exacerbate the fragility of the corporate sector at a time when businesses will already be under strain.

[7] See e.g. Christian Daude, Hamlet Gutiérrez, and Ángel Melguizo. "What drives tax morale?." (2012) OECD; Erzo FP Luttmer and Monica Singhal. "Tax morale." *Journal of economic perspectives* 28, no. 4 (2014): 149-68.
[8] John Velis (2020) "Factoring the equity market", *BNY Mellon: The Aerial View*, available at https://www.bnymellon.com/_global-assets/pdf/our-thinking/the-aerial-view/chart-of-the-day-march-26-2020.pdf
[9] James A. Mirrlees. *Dimensions of tax design: the Mirrlees review*. Oxford University Press, 2010.

A new fiscal framework

Finally, responding to the coronavirus pandemic will require a new set of fiscal rules, to govern the relationship between taxation, spending, and borrowing during the post-crisis reconstruction. Since 2010, the UK's fiscal framework has been in constant flux: Osborne and Hammond repeatedly deferred the date by which public sector debt levels were supposed to fall, Javid announced entirely new rules in the 2019 election campaign, and Sunak declared in his spring 2020 budget that these new rules would themselves be "reviewed" prior to the autumn 2020 budget.[10] While it is tempting in light of this history to view the UK's fiscal framework as more aspiration than rule, the framework nevertheless plays an important role in guiding tax policy decisions, as well as in structuring budget negotiations across government.

Parts of the most recent fiscal framework (see Box 1) already read like missives from another era. The idea that the UK government's current budget could be in balance by 2022-2023 seems fantastical on any reasonable forecast for the public finances. The infrastructure spending that the generous allowance for public sector net investment was intended to facilitate now looks likely to be mothballed, at least for the immediate future. Of the three rules, only the third still seems at all relevant: emphasising that debt is sustainable so long as government is able to borrow cheaply.

Box 1: The UK's fiscal targets (March 2020 Budget)

- the current budget to be in balance by the third year of the forecast (2022-23);
- public sector net investment not to exceed 3 per cent of GDP;
- net interest costs to be less than 6 per cent of non-interest receipts.

Source: OBR (2020) *Economic and fiscal outlook March 2020*.

How then should we reconfigure the UK's fiscal framework in the wake of the pandemic? Perhaps the most obvious implication of the present crisis is that the distinction between current and capital spending no longer makes economic sense, and may distort public expenditure in harmful ways. The rationale for treating capital spending differently to current spending can be traced back at least as far as Gordon Brown's golden rule "that over the economic cycle the Government will borrow only to invest, and that current spending will be met from taxation".[11] Capital investments supposedly boost productivity and economic growth over the longer-term (and thus governments can legitimately borrow against the future tax receipts such investments will generate), whereas current spending reflects the services that citizens "consume" in a given year. Yet many aspects of current spending yield long-term economic benefits: for example, current spending on teachers and other educators helps to cultivate the productive attitudes and skills of tomorrow's workforce. In the throes of the

[10] For a useful summary of changes to the UK's fiscal rules over the last decade, see Matthew Keep (2020), Office for Budget Responsibility and Charter for Budget Responsibility, House of Commons Library Briefing Paper CBP 5657.
[11] Gordon Brown (1997), Budget Statement, HC Deb 02 July 1997 vol 297 cc303-16.

coronavirus crisis, it is manifestly obvious that healthcare spending plays a similar role. Starkly put, spending on doctors' and nurses' salaries helps keep workers alive, equating to a healthier, longer-living and thus more economically productive population. Moreover, better crisis preparedness, arising from higher spending on salaries and consumable personal protective equipment in the run-up to the crisis, would have resulted in a shorter, less economically-damaging lockdown than has proven necessary to ration limited NHS capacity. Drafters of the UK's post-pandemic fiscal framework must reappraise the distinction between current and capital spending, or even jettison it entirely.

More promising is the emphasis that the Johnson government's new fiscal rules place on the cost of servicing debt, rather than the level of debt *per se*. As discussed in the introduction to this paper, on the conventional view of public financial management, the public finances are sustainable so long as borrowing is affordable. If investors are willing to accept lower returns on gilts, it follows that the UK can afford to borrow more. A more sophisticated version of such a fiscal rule might take into account the maturity profile of the UK's debt stock, as well as forecasts for the likely costs of new gilt issues.

Lastly, any new fiscal framework needs to manage taxation, spending and borrowing in such a way that the UK government is equipped to endure the next crisis that it faces. Contrary to the austerity evangelists of the inter-crisis years, this does not mean that government borrowing is necessarily unsustainable, and that deficits must be closed as soon as possible. In retrospect, we may well conclude that austerity reduced the resilience of the public sector, by stifling growth that could have paid off public debts faster, and by running down the NHS – to say nothing of its impact on the crisis-readiness of individual households. Nevertheless, preparation for the next economic crisis involves recognising that governments cannot and should not operate at the outer bounds of their fiscal capacity indefinitely. Precisely where those boundaries lie, however, is another question.

Appendix 1: Potential revenue from a one-off wealth tax

In this Appendix, we explore how much revenue a one-off wealth tax (OWT) might raise. This analysis uses the headline findings from the Office for National Statistics' Wealth and Assets Survey for the period April 2016 to March 2018. It should be emphasised that this is a rough-and-ready assessment, dependent upon a number of assumptions. The goal is not to arrive at a precise estimate of the revenue yield of a post-pandemic one-off wealth tax, let alone assess its ramifications for the wider economy. Rather, our aim is to conduct a preliminary assessment that illustrates why an OWT merits further consideration as part of the fiscal response to COVID-19.

We consider an OWT that excludes the least wealthy 50% of the UK population from its scope entirely, and provides the wealthier half of the population with a tax-free allowance up to the median wealth level (see Table A1). This means that individuals whose wealth only just exceeds the median level will in practice pay a very low effective rate of OWT, relative to the marginal rate. The revenue estimates that follow are based upon a flat rate of tax on net wealth above the tax-free threshold. Policymakers could of course introduce a progressively increasing rate structure instead.

Table A1: Distribution of tax base assuming average prices April 2016 to March 2018 (ONS data)

	Average net household wealth	Percentage of total UK household wealth	Average taxable wealth	Taxable wealth as percentage of total UK household wealth
1st (lowest) wealth decile	3,700	0.1%	0	0%
2nd wealth decile	25,900	0.5%	0	0%
3rd wealth decile	70,800	1.3%	0	0%
4th wealth decile	143,200	2.5%	0	0%
5th wealth decile	234,800	4.2%	0	0%
6th wealth decile	347,700	6.2%	61,100	1.1%
7th wealth decile	501,800	8.9%	215,200	3.8%
8th wealth decile	715,100	12.7%	428,500	7.6%
9th wealth decile	1,084,700	19.2%	798,100	14.1%
10th (highest) wealth decile	2,516,400	44.6%	2,229,800	39.5%

The tax base is thus circa 66% of total household wealth, reported as £14.6tn by the ONS – equating to £9.7tn. There is significant uncertainty surrounding changes in asset prices since the period covered by the ONS data (which was deflated to average prices for April 2016 to March 2018 using CPIH). The onset of the pandemic triggered a 35% fall in the FTSE All Share index, and observers predict that UK house prices could fall by as much as 10% over 2020.[12] For simplicity, we have assumed that the value of household wealth has shrunk by 20% since the ONS data was compiled, and that this reduction was distributed uniformly across all asset classes and parts of the wealth distribution. Consequently, median wealth and the tax-free allowance are assumed to have fallen by the same proportion. Obviously, the degree to which asset prices have fallen (and recovered) will make a major difference to the revenues generated by an OWT.

Note also that ONS data provides information on household wealth levels, so these are used as the basis for our calculations. In practice, the tax would probably apply to individual wealth rather than household wealth, with the size of any tax-free allowance adjusted accordingly. Precise rules for asset and allowance apportionment within households would need to be determined as part of detailed tax design. For present purposes, we assume that this makes no material difference to the wealth distribution, and thus to overall revenue yields.

We assume that avoidance, evasion and error generates a further reduction in revenue, equivalent to the most recent official government estimate of the size of the UK tax gap .[13] Admittedly, an entirely novel tax may present more administrative challenges and avoidance/evasion opportunities than more established taxes, and more affluent individuals generally have a wider range of tax planning options at their disposal than their less wealthy peers. Conversely, however, we might reasonably anticipate less behavioural change in response to a one-off tax than a recurring tax, and clear penalties for under-declaring wealth may deter tax planning.

Table A2: Assessment of potential OWT revenue yields

	£bn
Total net wealth	14,600
Total taxable wealth	9,656
- after 20% decline in asset values	7,725
Revenue from 2.5% tax rate	193
- after error/avoidance/evasion	182
Revenue from 3% tax rate	232
- after error/avoidance/evasion	219

As Table A2 indicates, on the basis of these specifications and assumptions, an OWT would raise over £182bn if levied at a rate of 2.5%, and almost £219bn if levied at a rate of 3%. This would be enough to make a significant contribution towards, or even to fund fully, some early estimates of the fiscal costs of the pandemic.

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[12] Rachel Griffith, Peter Levell and Rebekah Stroud (2020), "The impact of COVID-19 on share prices in the UK", IFS, available at: https://www.ifs.org.uk/publications/14773. Jessica Clark (2020), "How badly will coronavirus hit UK house prices in 2020?", CityAM, available at: https://www.cityam.com/how-badly-will-coronavirus-hit-uk-house-prices-in-2020/.

[13] HMRC (2019), Measuring tax gaps 2019 edition: tax gap estimates for 2017-18, available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820979/Measuring_tax_gaps_2019_edition.pdf.

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