Private wealth industry reacts to ‘solidarity’ tax proposal

KATIE ROYALS, 09/04/2021

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The International Monetary Fund (IMF) has proposed a “solidarity” tax on high-earners and companies that have prospered, as a means of improving social cohesion.

This has been met with mixed responses from the private wealth industry.

Adam Dunnett, director at trust company Zedra, described the proposal as a “bold idea”.

“In many ways the spirit of the IMF’s statement, the intentions and motivations behind it are hard to fault.”

Implementing such a tax is not a straightforward process.

Practically, at a corporate level at least, popular consumer businesses pass tax on to the customer pretty quickly, Mr Dunnett warned.

“A solidarity tax applied to a broader number of taxpayers, maybe entire industries or all businesses that experienced profits increases over a certain amount, could be expensive to implement and enforce.

“Investors and businesses crave stability after a bonkers 12 months, and introducing an expected tax charge raises the prospect of more uncertainty, which governments are keen to avoid.”

Introducing a “solidarity” tax, also raise questions about the purpose of taxation.

James Ross, a partner at law firm Mcdermott Will & Emery, explained: “Tax systems have various purposes – to raise money for public services, to enable redistribution of income, and to change public behaviour (think of ‘sin taxes’) – all valid and worthwhile aims.

“But the rationale for this proposal is expressed to be ‘symbolic’ – which implies that it will achieve none of those aims and is merely intended to send a political signal.

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“This is not a suitable use of the tax system, which is complex enough as it is without the insertion of additional provisions with no practical purpose in terms of revenue-raising, redistribution or changing behaviour.

However, there is no denying that more than a minority of individuals and corporations have financially prospered during the crisis, Richard Jordan, a partner at Gateley Legal argued.

But, simply increasing tax rates does not work, he explained.

“The money has not, like 2008, left the ‘system’. There have been winners and losers, but the money is there, saved and/or invested, but not spent. The economy relies on this money being redeployed into the system and for those recovering from hard times to have confidence to spend again.

“Headline rate tax rises will undermine that confidence and could cause the economic recovery to stall. That will hurt everyone from top to bottom. Trying to pick the winners and losers is also incredibly difficult...I am not convinced this would add to social cohesion.”

Mr Jordan is a vocal supporter of the need to level up society to prevent the ill feeling arising from the growing gulf between the ‘haves’ and ‘have nots’.

“This is consistent with the IMF’s solidarity message, but I would achieve it in a different way,” he told *eprivateclient*.

Firstly, he would levy a one-off tax on all residential property in the UK with a value of more than £1 million, regardless of ownership or financing. The tax would be tapered and increase to a maximum rate and a maximum contribution.

It would be called the Covid Levy and people would be given three years in which to pay it.

“Optically, this gives the desired message: ‘We cannot work out who has done well and who has not, but if you are in the top percentage of affluence, we are asking you to help your country by making a one off contribution to enable the country to recoup the cost incurred on helping those who have’”, Mr Jordan explained.

Secondly, Mr Jordan would make changes to Inheritance Tax (IHT) to stimulate the transfer of wealth.

Headline IHT could rise from 40 percent to 50 percent on the value of estates worth more than £5 million, effective 2025. At the same date, Potentially Exempt Transfers (PETS) will be abolished, but there would also be an increase of the IHT allowance to £400,000.

“This will cause a scramble to move money down to future generations who will buy homes and spend some of that money. We need that locked up capital to be moved to those who will buy property and be consumers.

“No person can validly argue against such a suggestion. It send the right message to society. It gets the economy going again,” Mr Jordan concluded.

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