



DHI Bites:

Talking Tax with Dr Arun Advani, Dr Andrew Summers and Charlotte Barbour

Wednesday 8<sup>th</sup> July 2020



Economic and Social Research Council





International  
Inequalities Institute



Department of  
**Law**

# How Much Tax Do The Rich Really Pay?

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New evidence using tax microdata

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## **Acknowledgements**

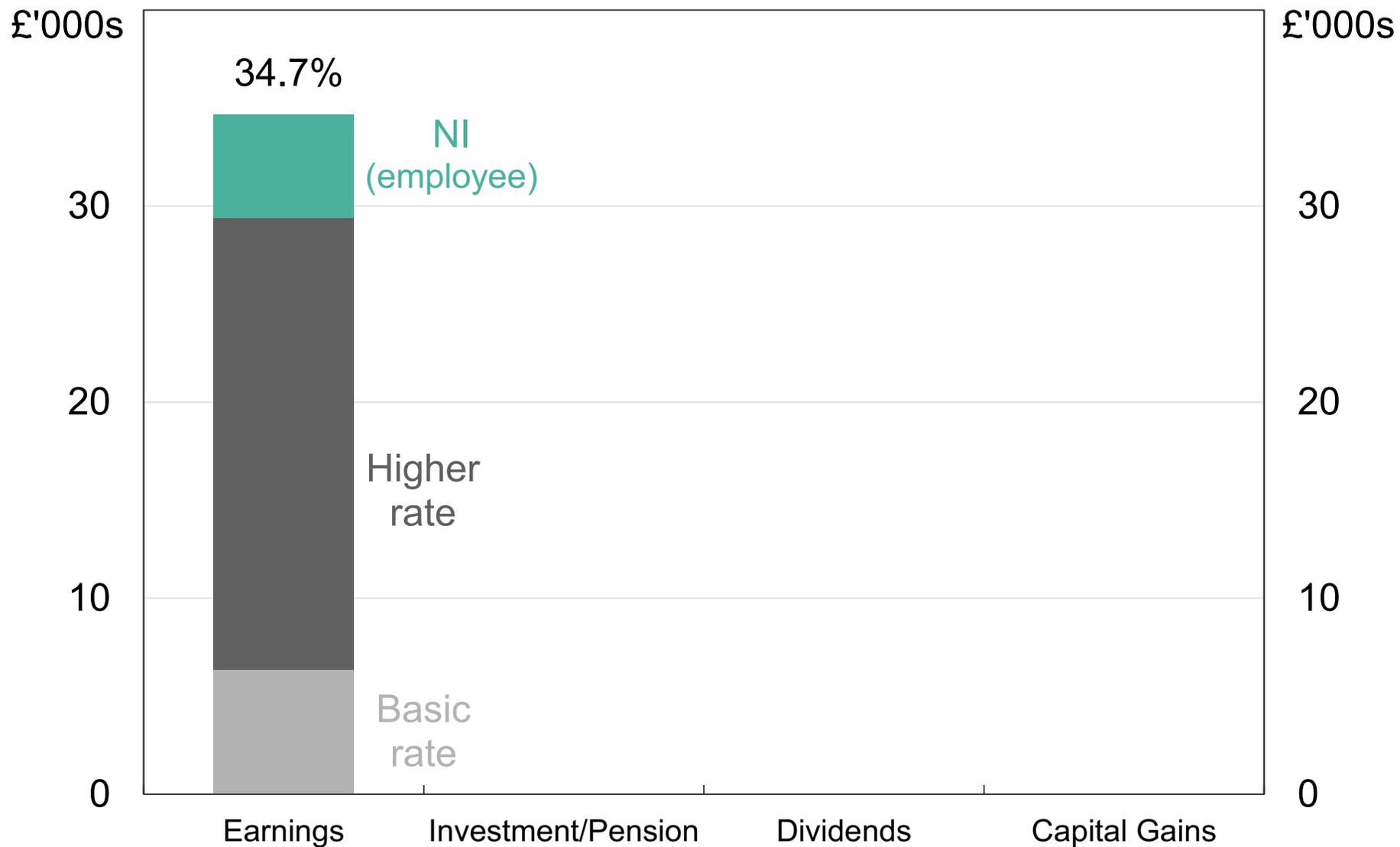
The authors thank Helen Hughson and Hannah Thompson for outstanding research assistance; Felix Koenig and Lorenzo Pessina for foundational work on which this analysis builds; and the entire HMRC Datalab team – especially Yee Wan Yau, Alastair Currie and James Dainty – for insights and support.

## **Funding**

This research was funded by the Economic and Social Research Council (ESRC) through the Centre for Competitive Advantage in a Global Economy (CAGE) at Warwick (ES/L011719/1) and by LSE International Inequalities Institute, LSE Law, and Warwick Economics.

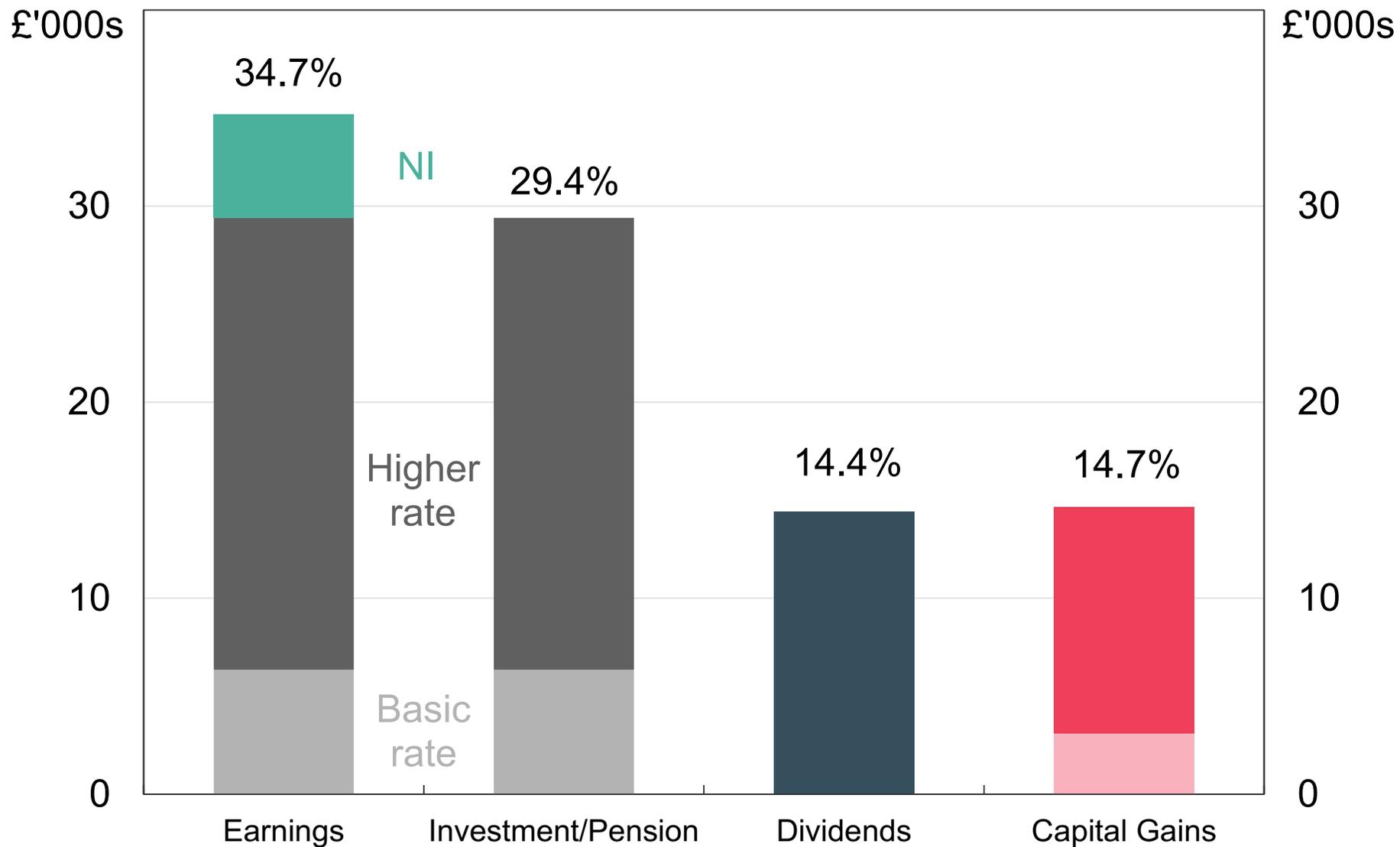
# Headline tax rates

Tax due on £100,000 received, 2015-16

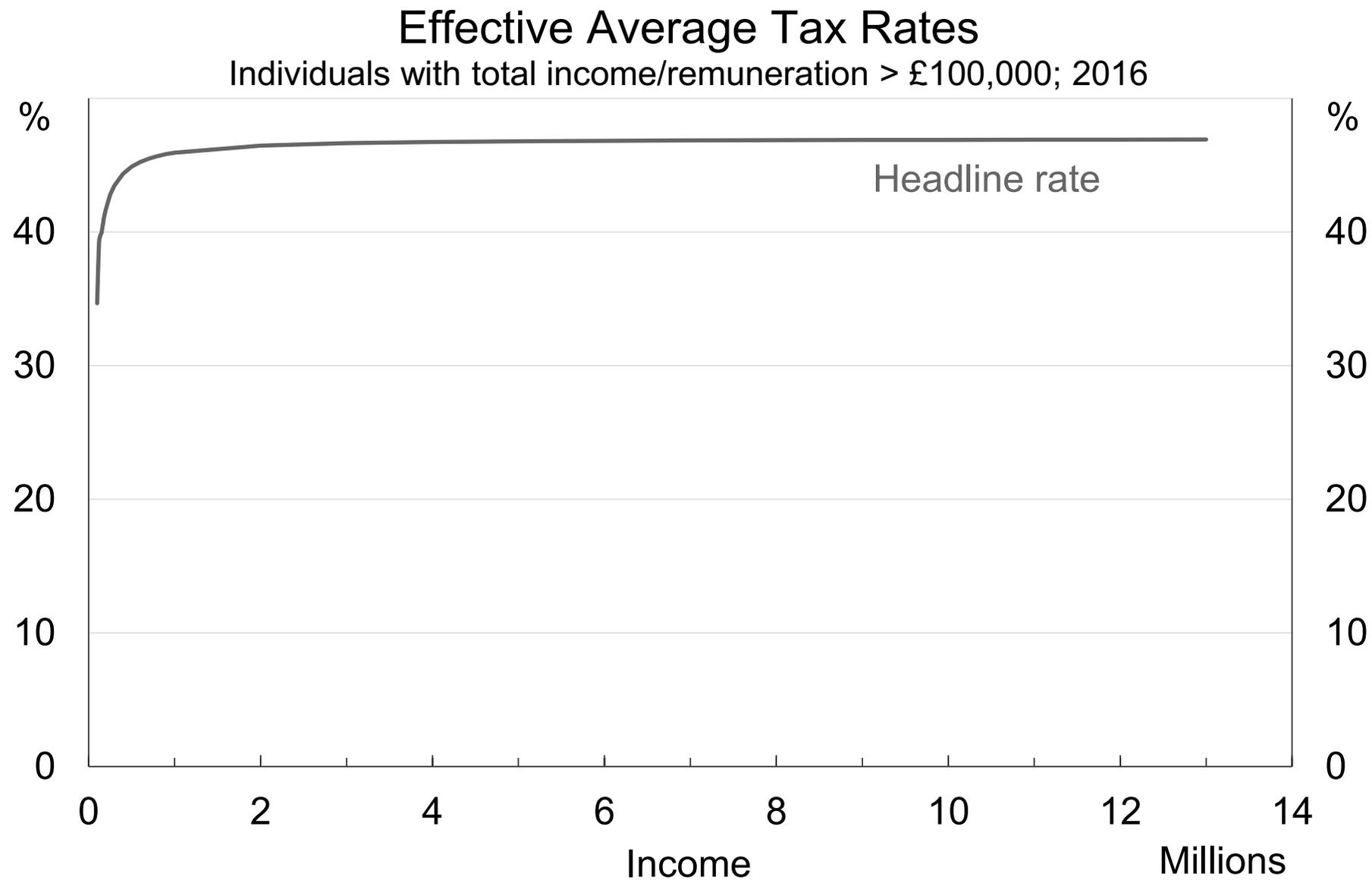


# Headline tax rates

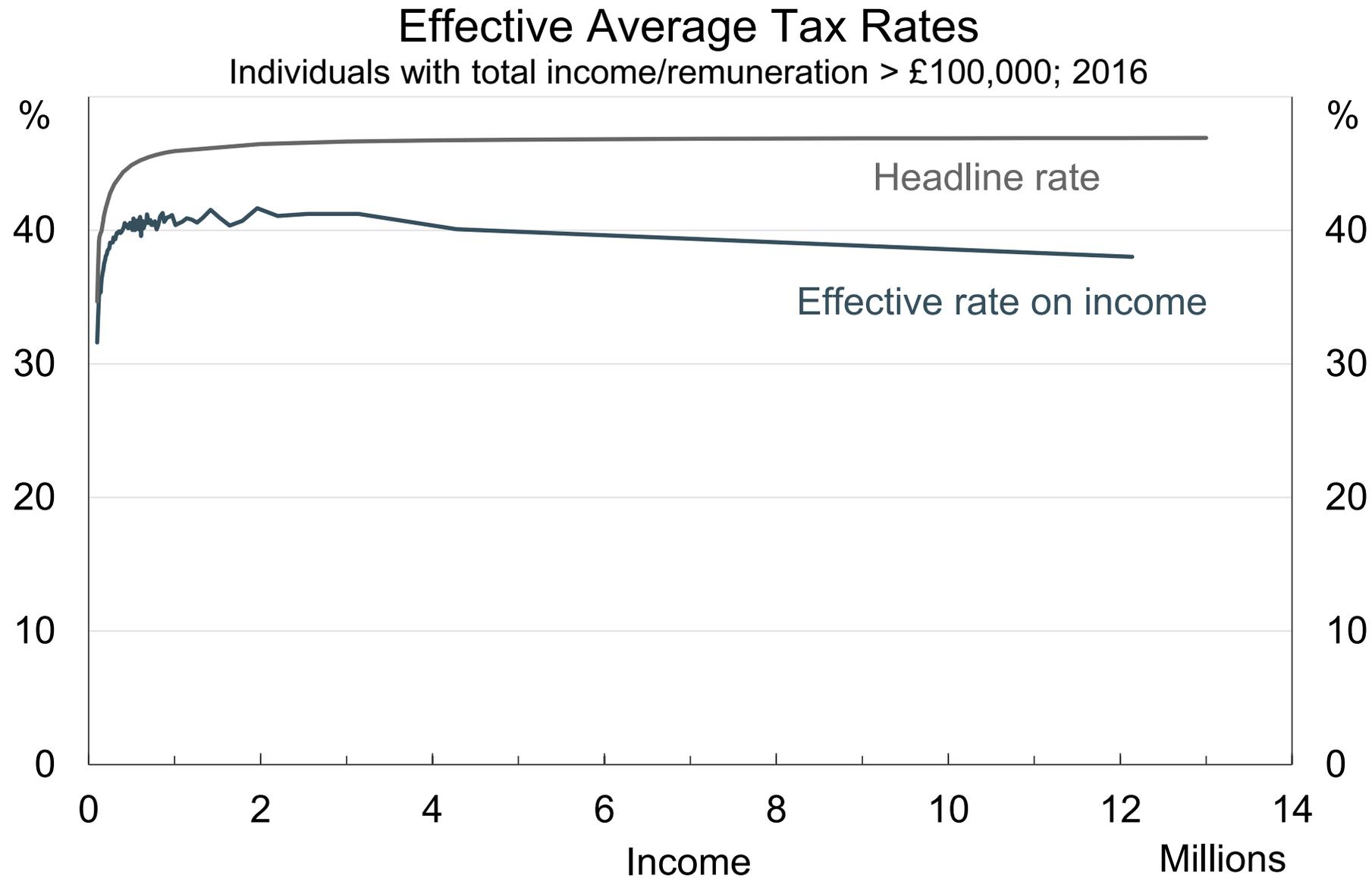
Tax due on £100,000 received, 2015-16



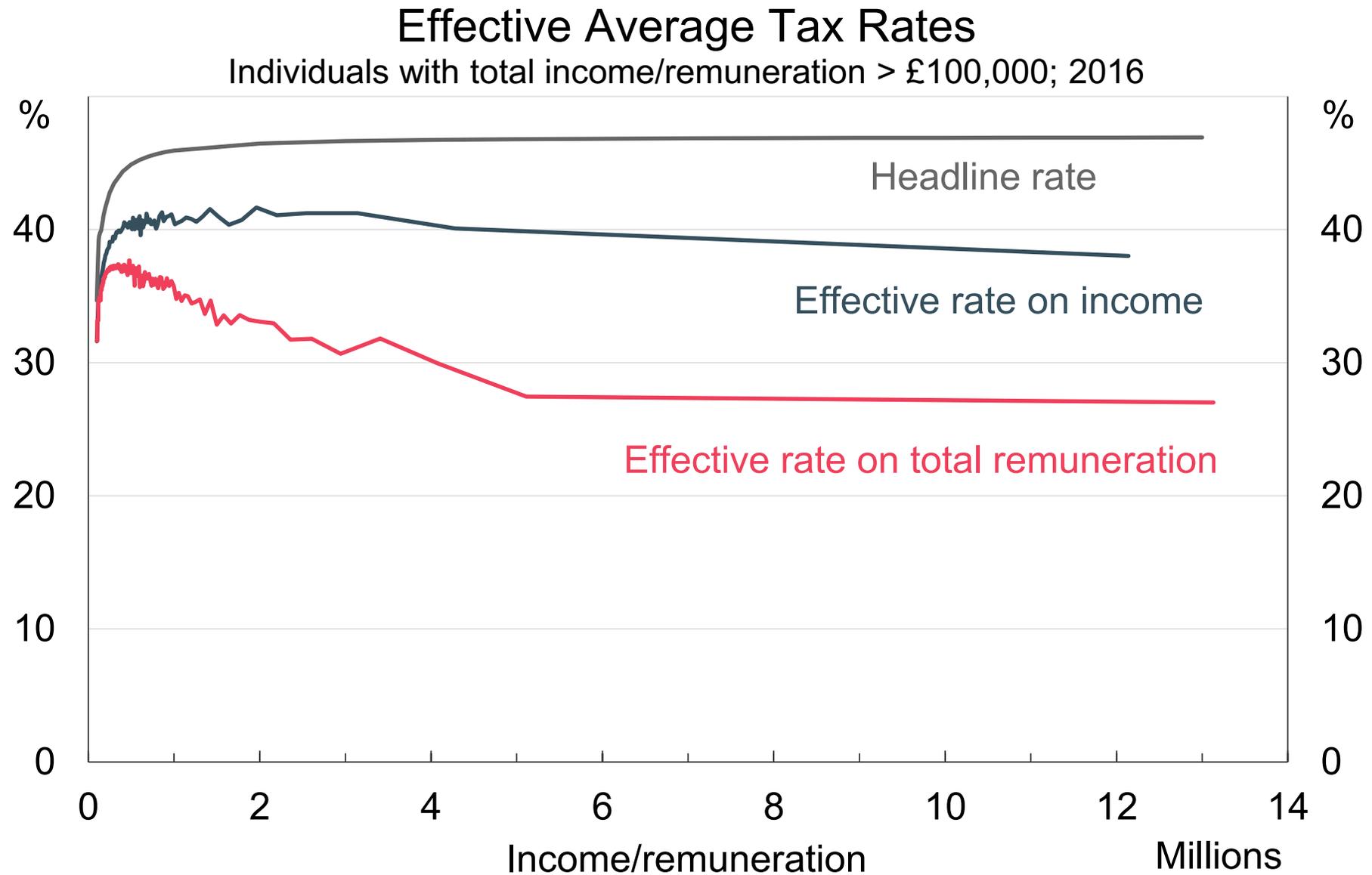
# Headline rate increases as income rises



# EATR on income much lower than headline rate



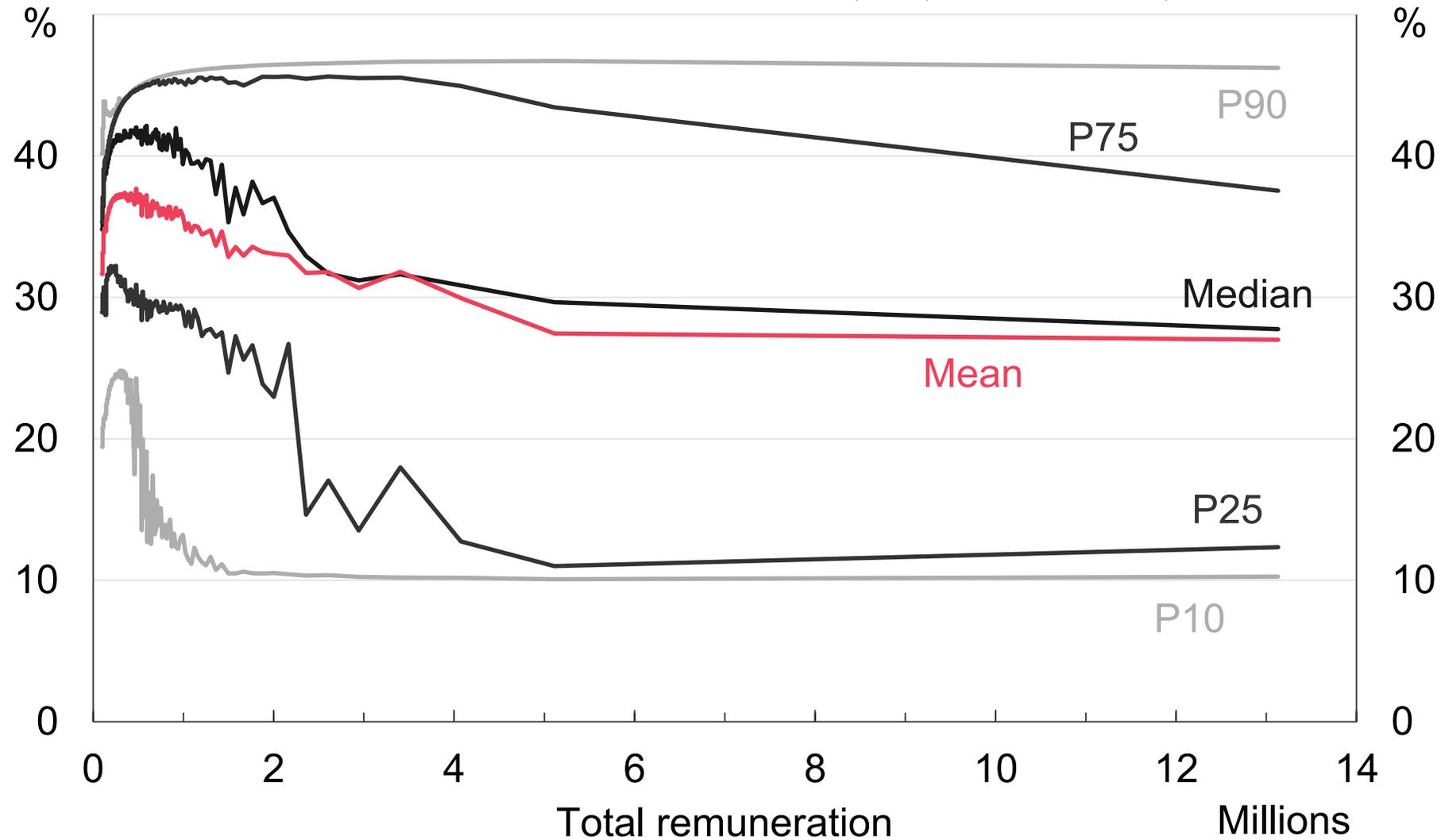
# EATR on income+gains declines sharply from £250k



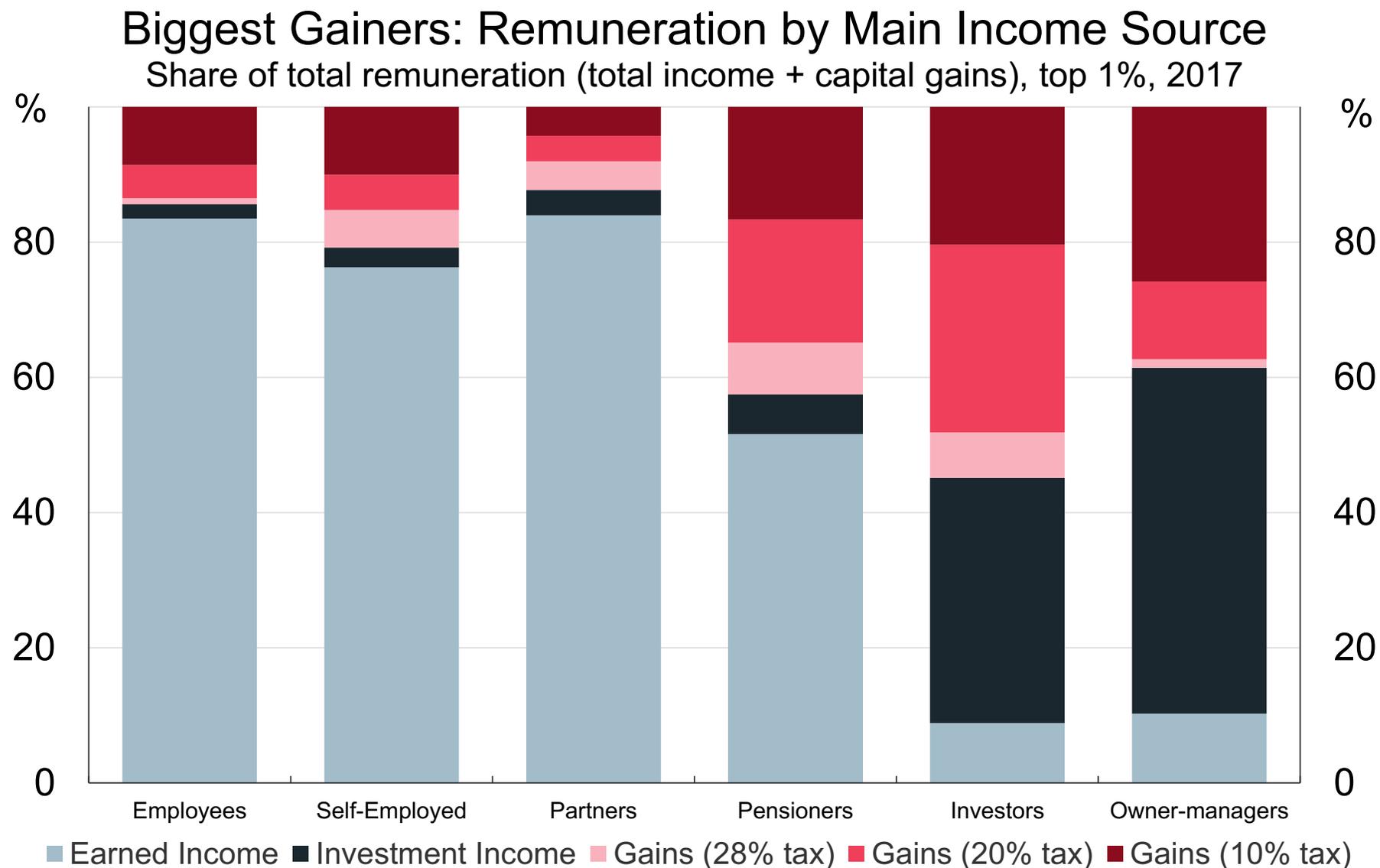
# EATRs vary a lot across otherwise similar people

## Distribution of Effective Average Tax Rates on Remuneration

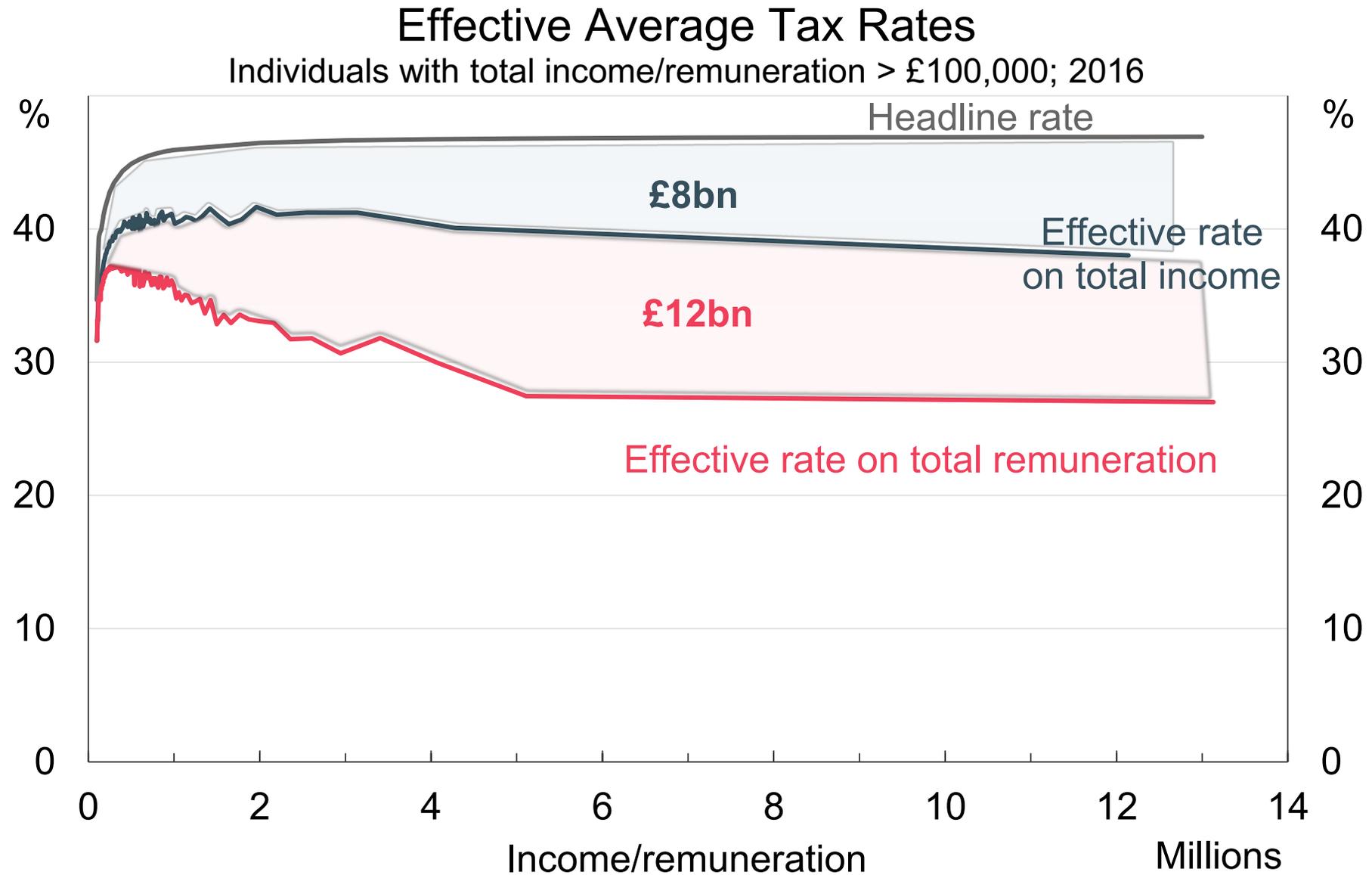
Individuals with total remuneration > £100,000; worldwide tax; 2016



# Lower rates benefit investors and owner-managers



# Cost of lower effective rates

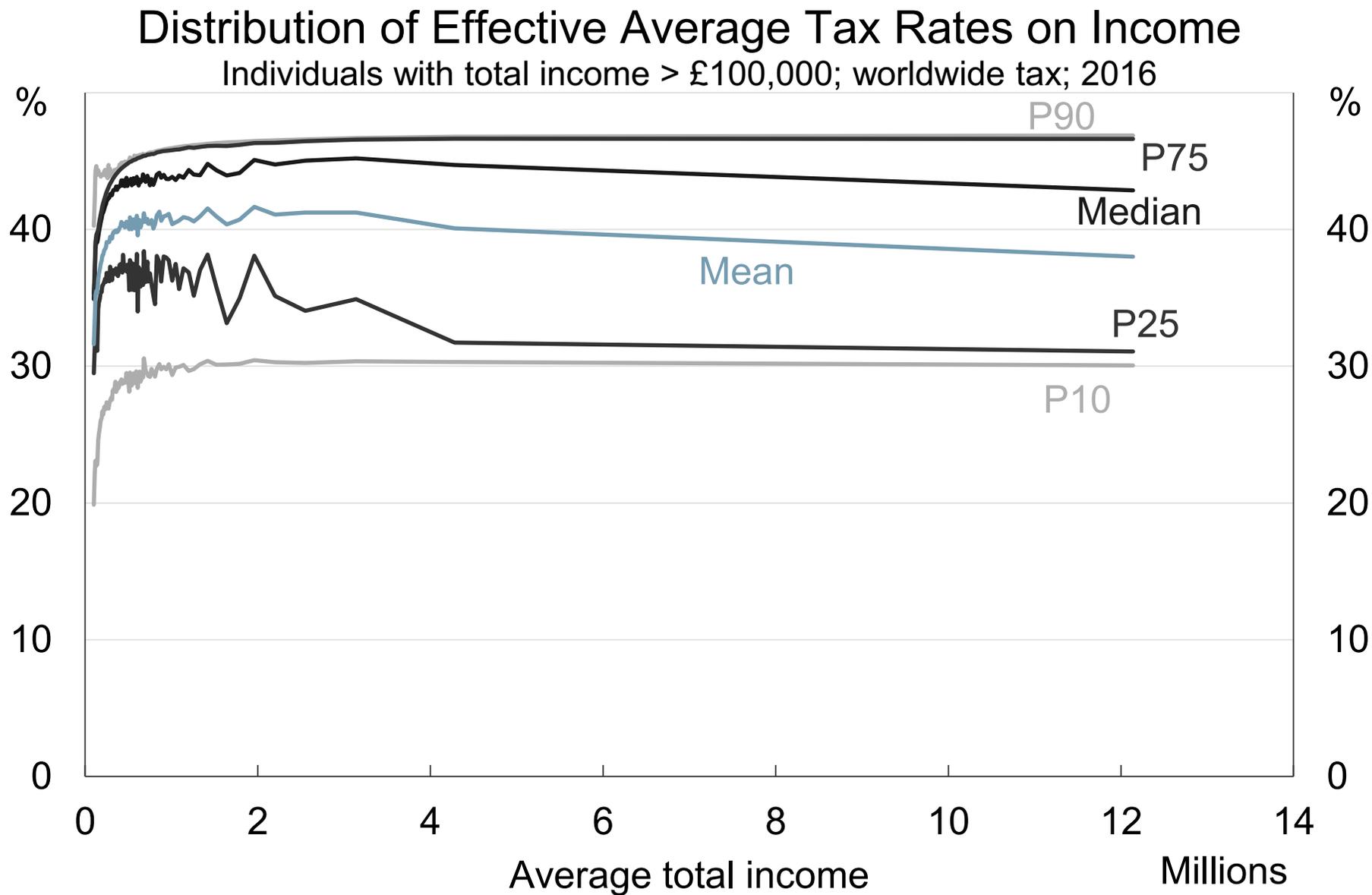


# An Alternative Minimum Tax?

- If all income were taxed at a minimum rate of **35%** it would **raise £3bn**
- If gains were also covered by the AMT, **it would be £11bn**
  - Equivalent to 5p on both higher and additional rates

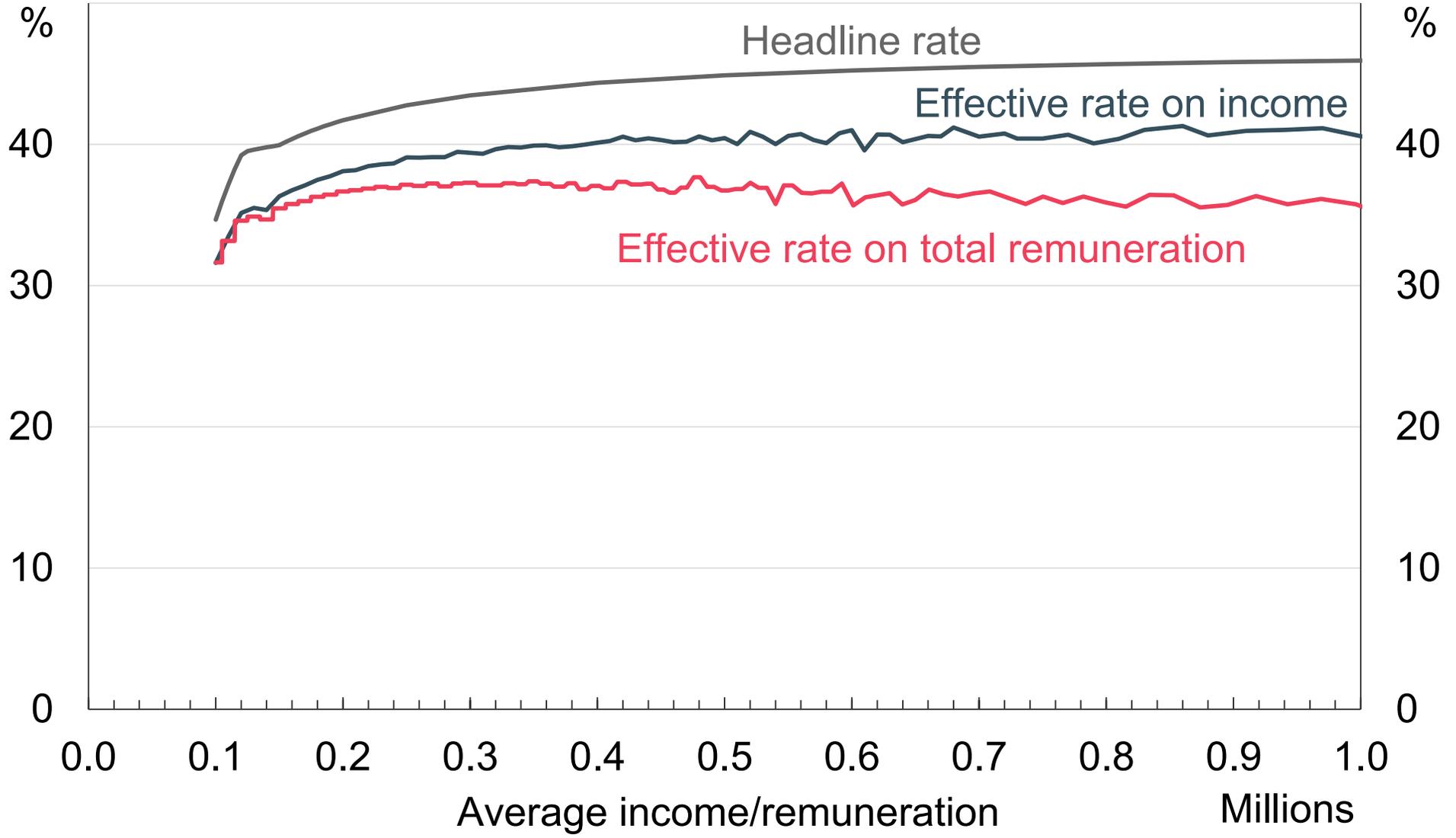


# EATR vary substantially among those with high incomes



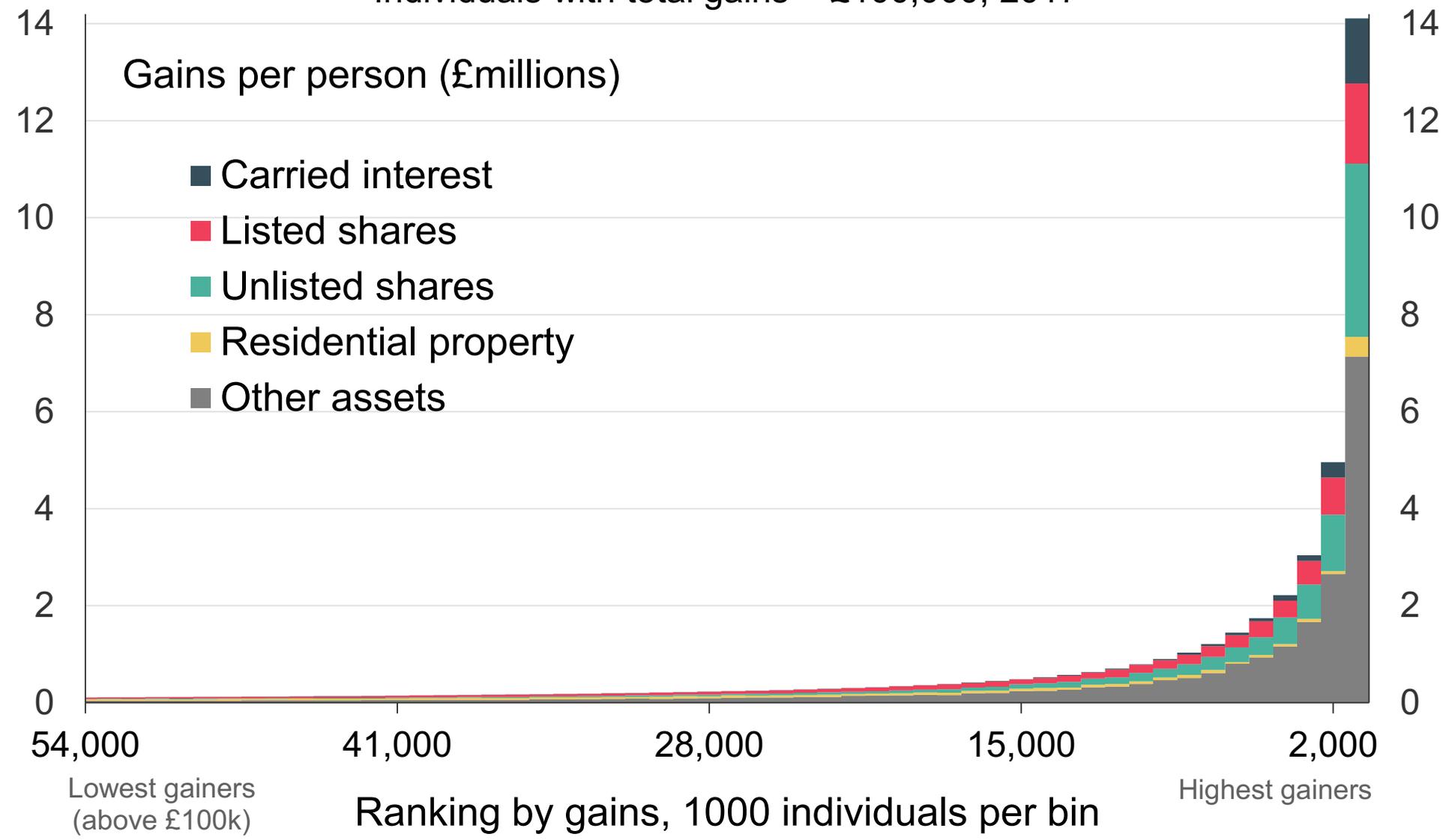
# Effective Average Tax Rates

Individuals with total income/remuneration > £100,000; 2016

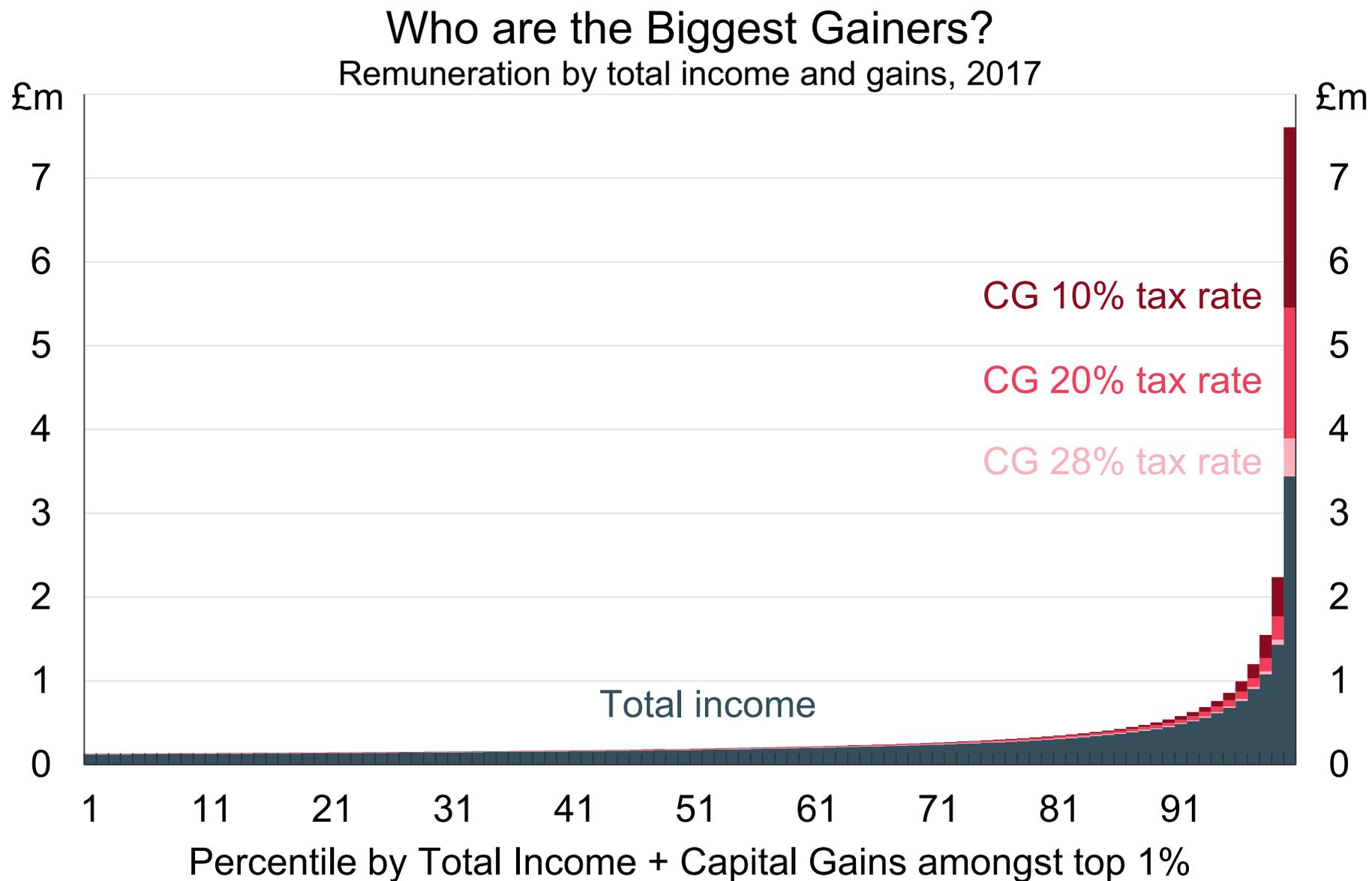


# Distribution of Gains by Asset Type

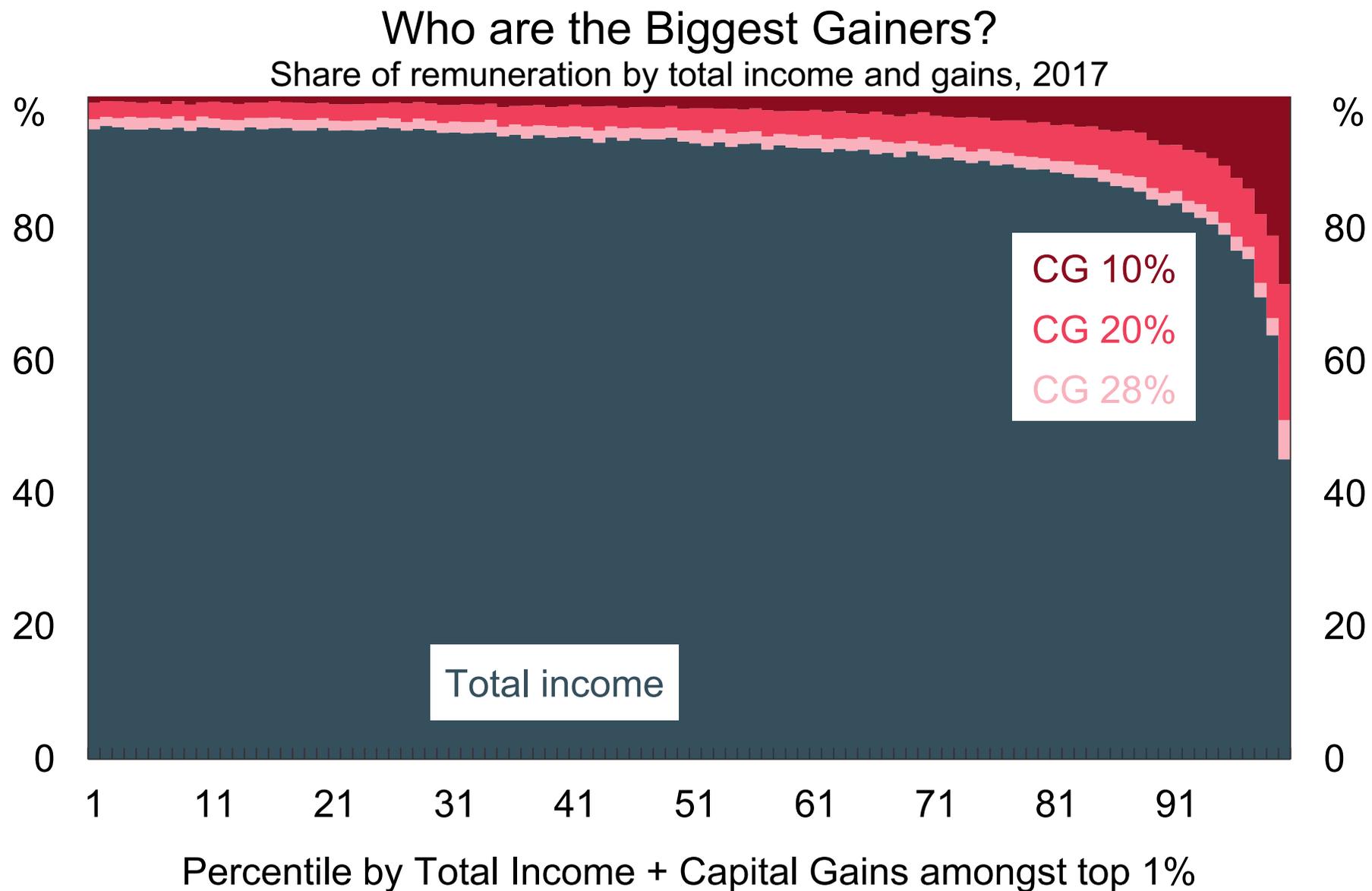
Individuals with total gains > £100,000, 2017



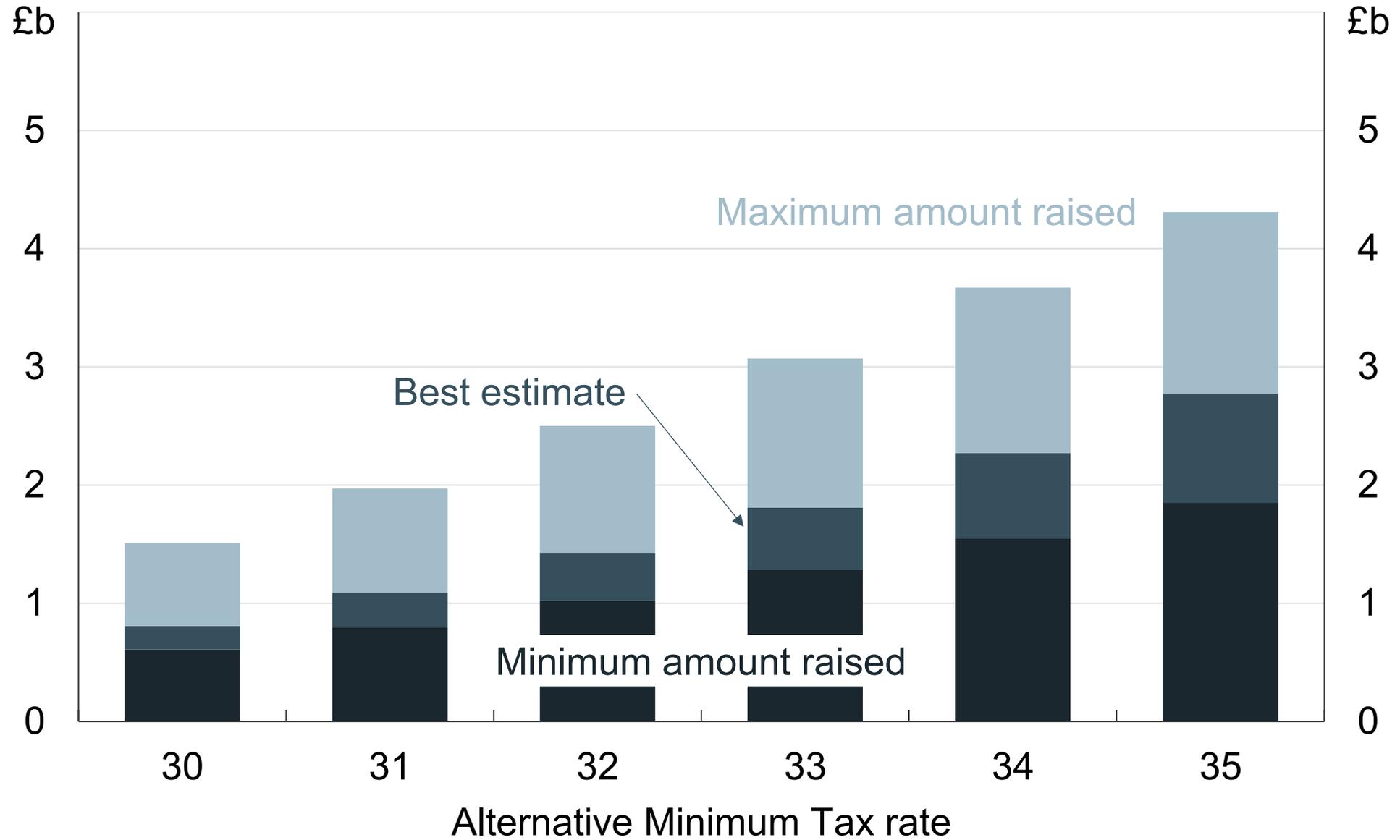
# Lower rates benefit those with highest remuneration



# Lower rates benefit those with highest remuneration

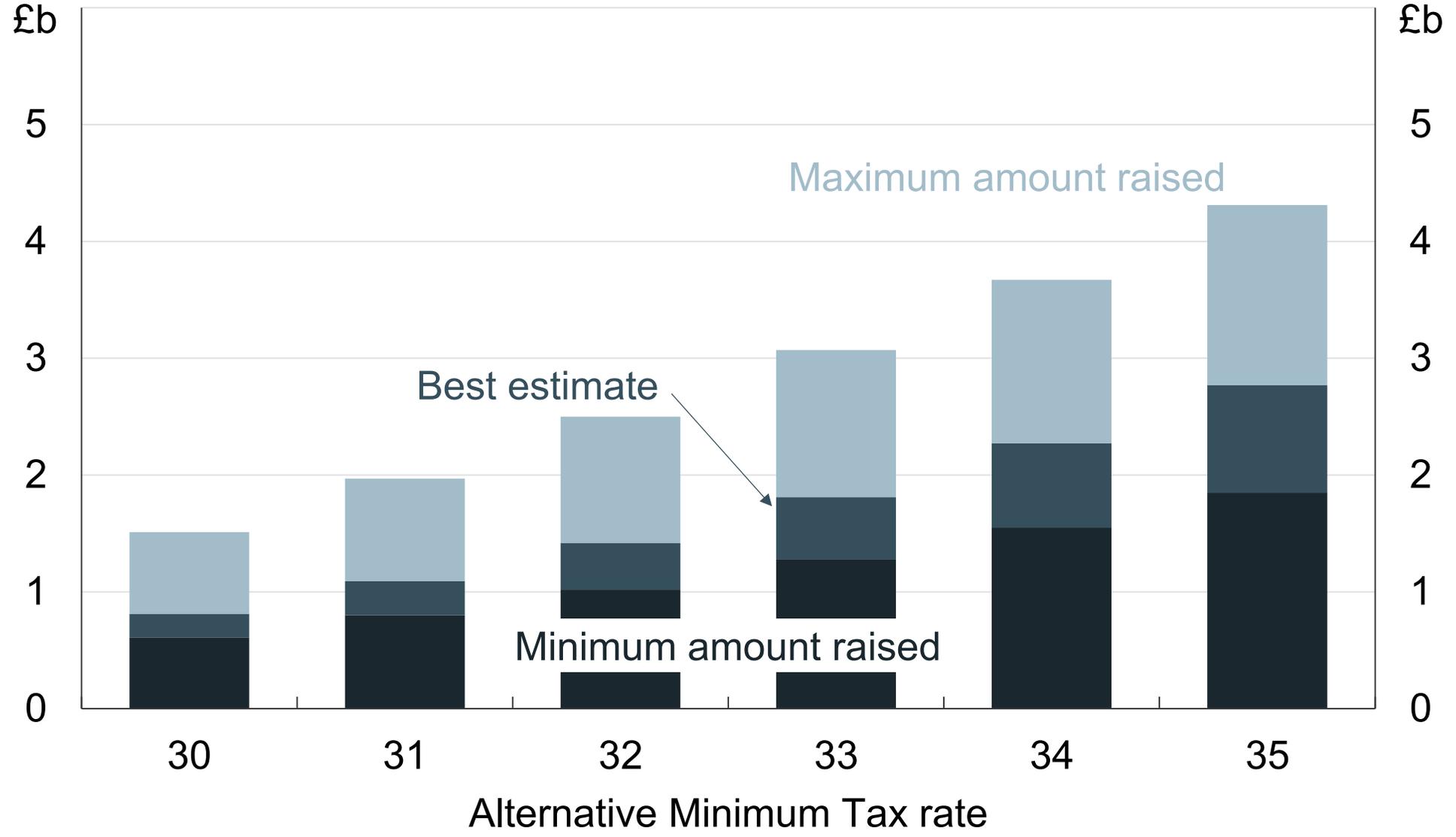


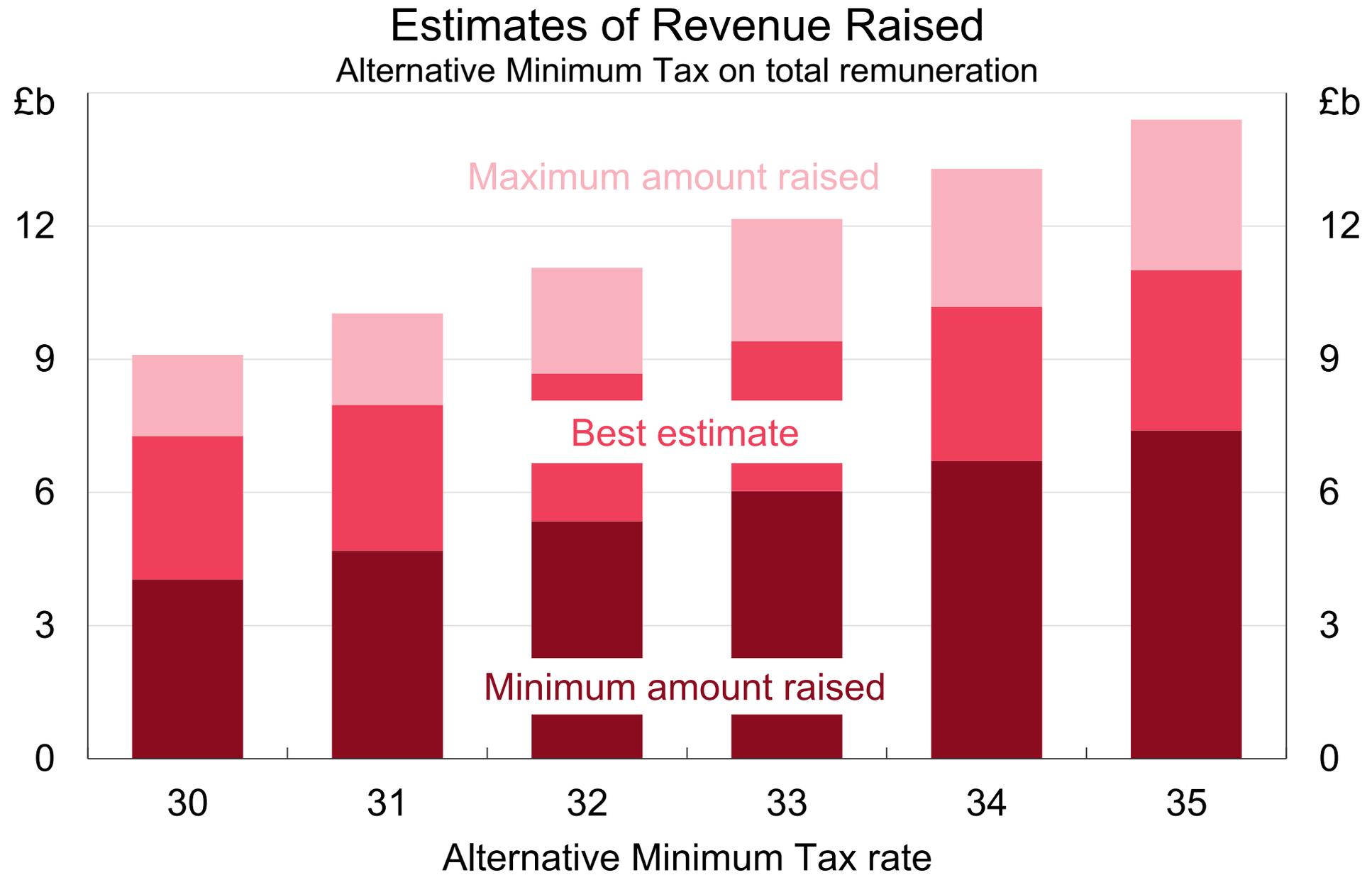
## Revenue Raised under Alternative Minimum Tax



# Estimates of Revenue Raised

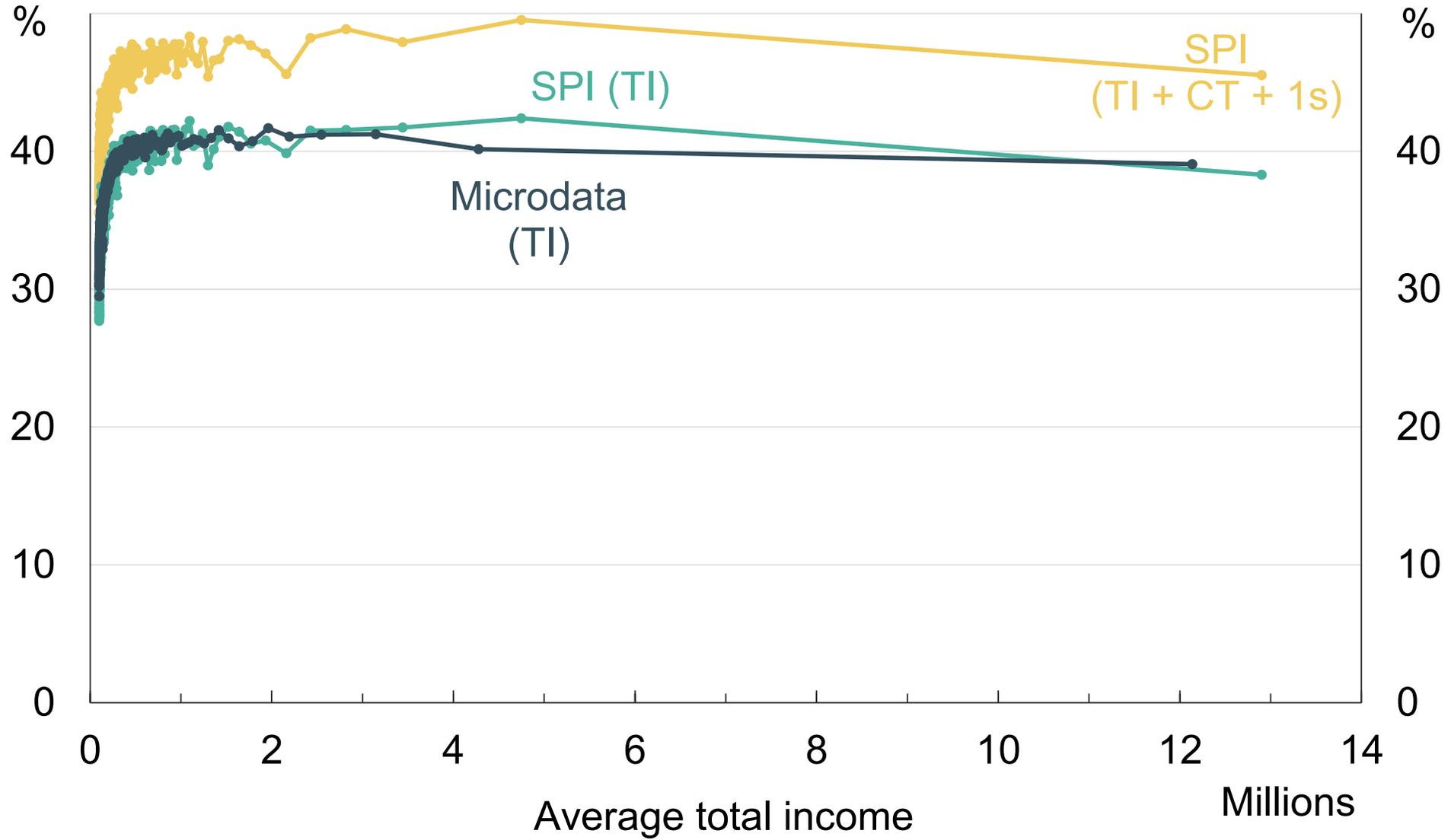
## Alternative Minimum Tax on Income





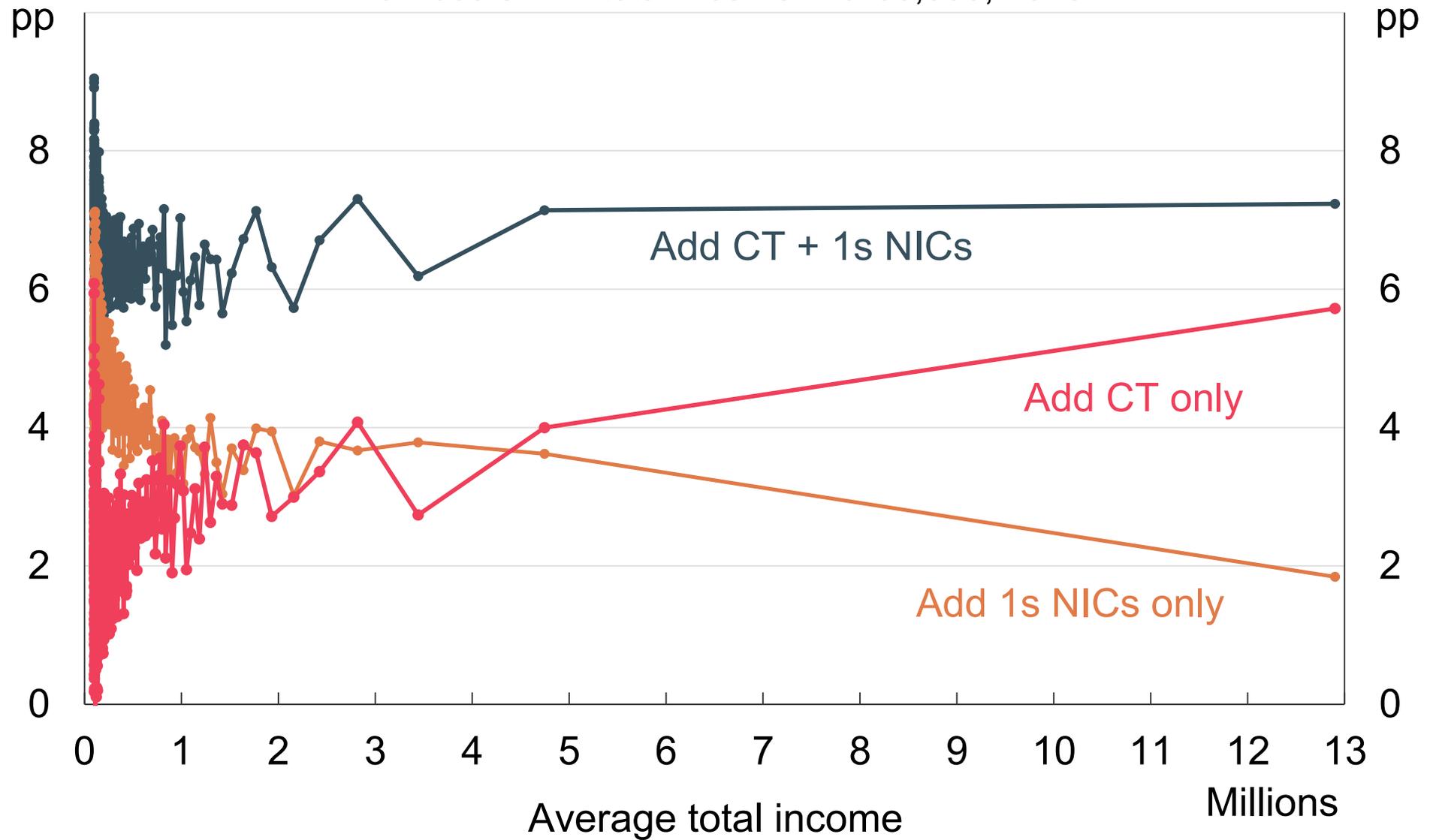
# Distribution of Effective Average Tax Rates

Individuals with total income > £100,000; 2016



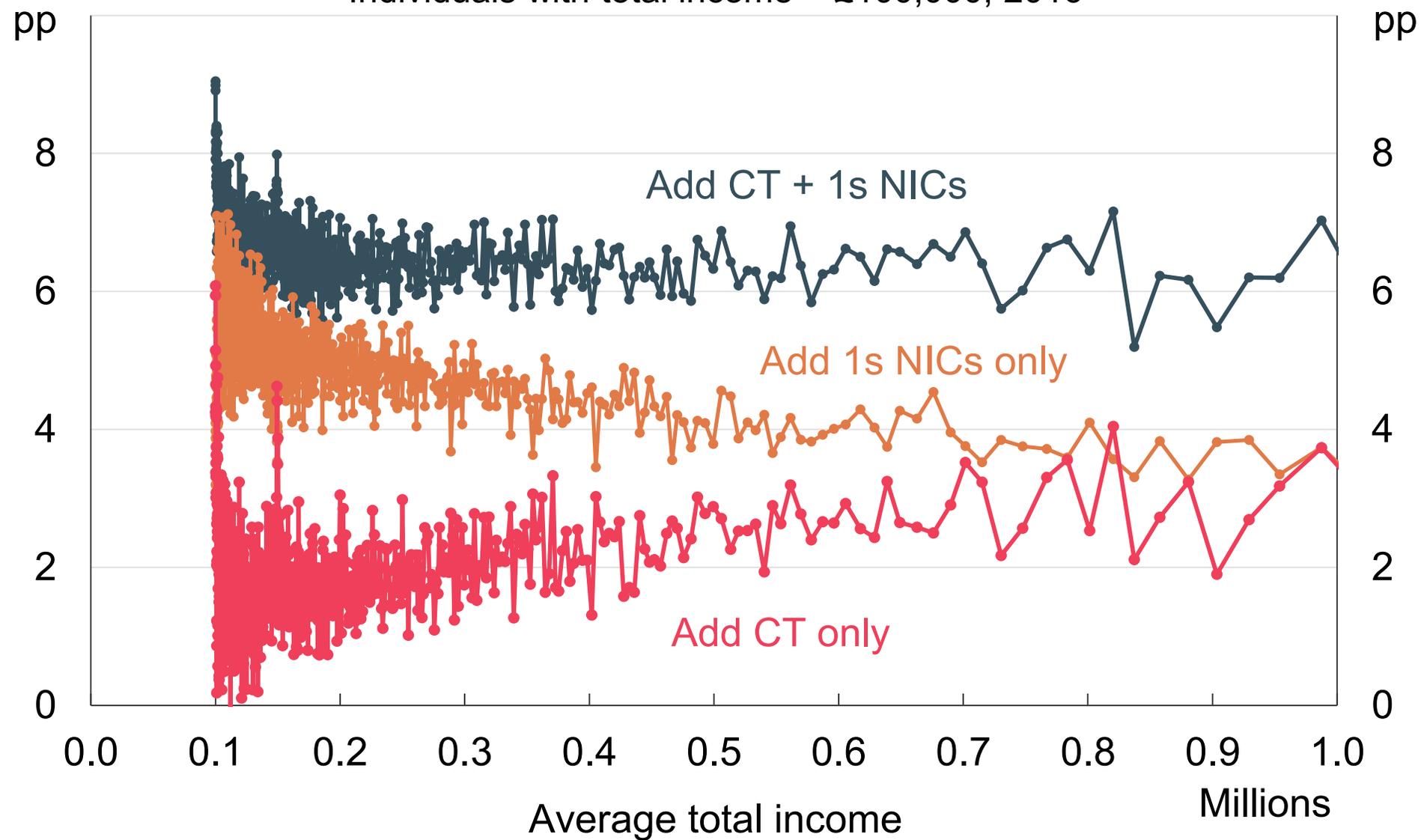
# Impact of Incidence Assumptions on Effective Average Tax Rates

Individuals with total income > £100,000; 2016



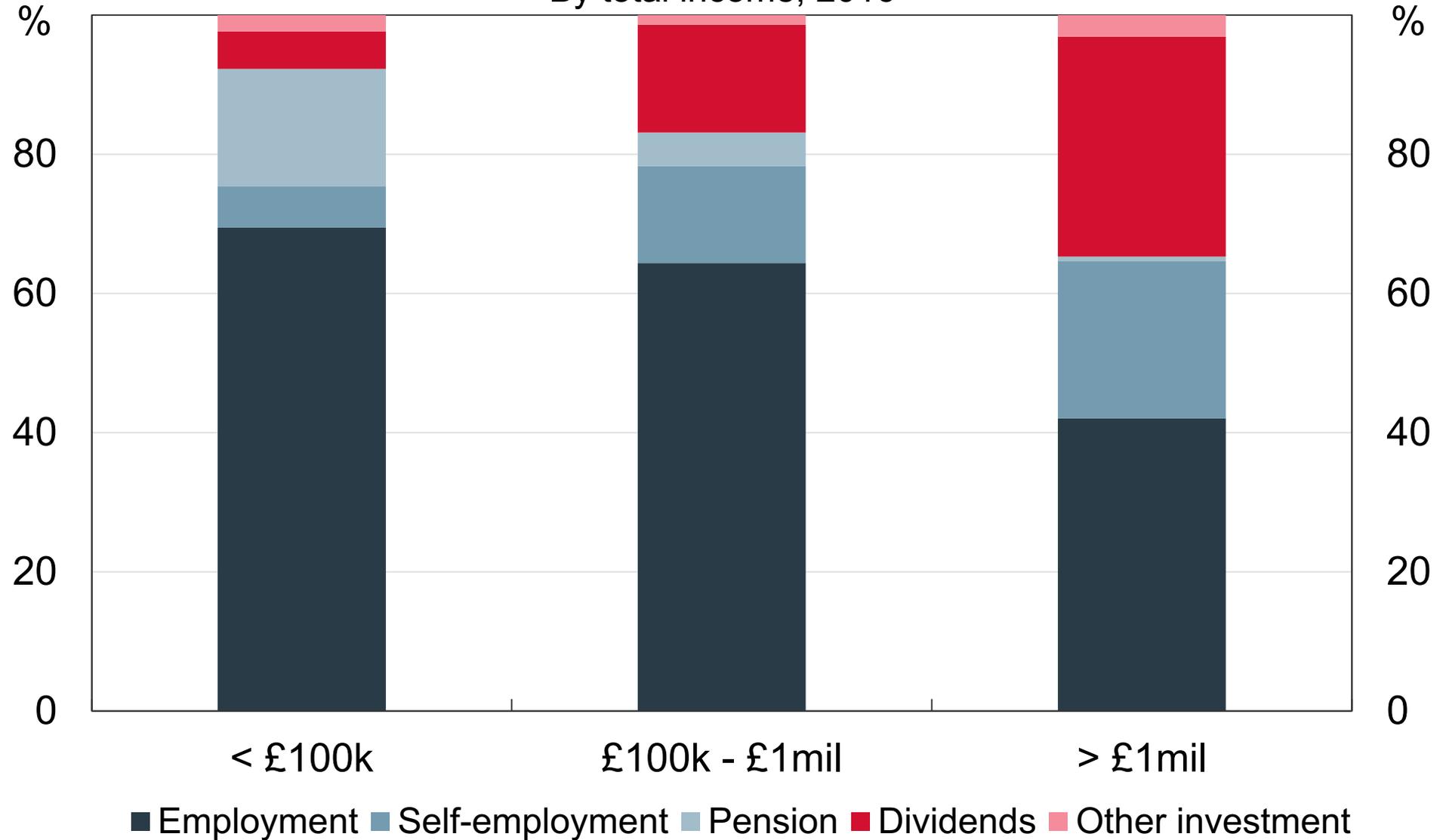
# Impact of Incidence Assumptions on Effective Average Tax Rates

Individuals with total income > £100,000; 2016



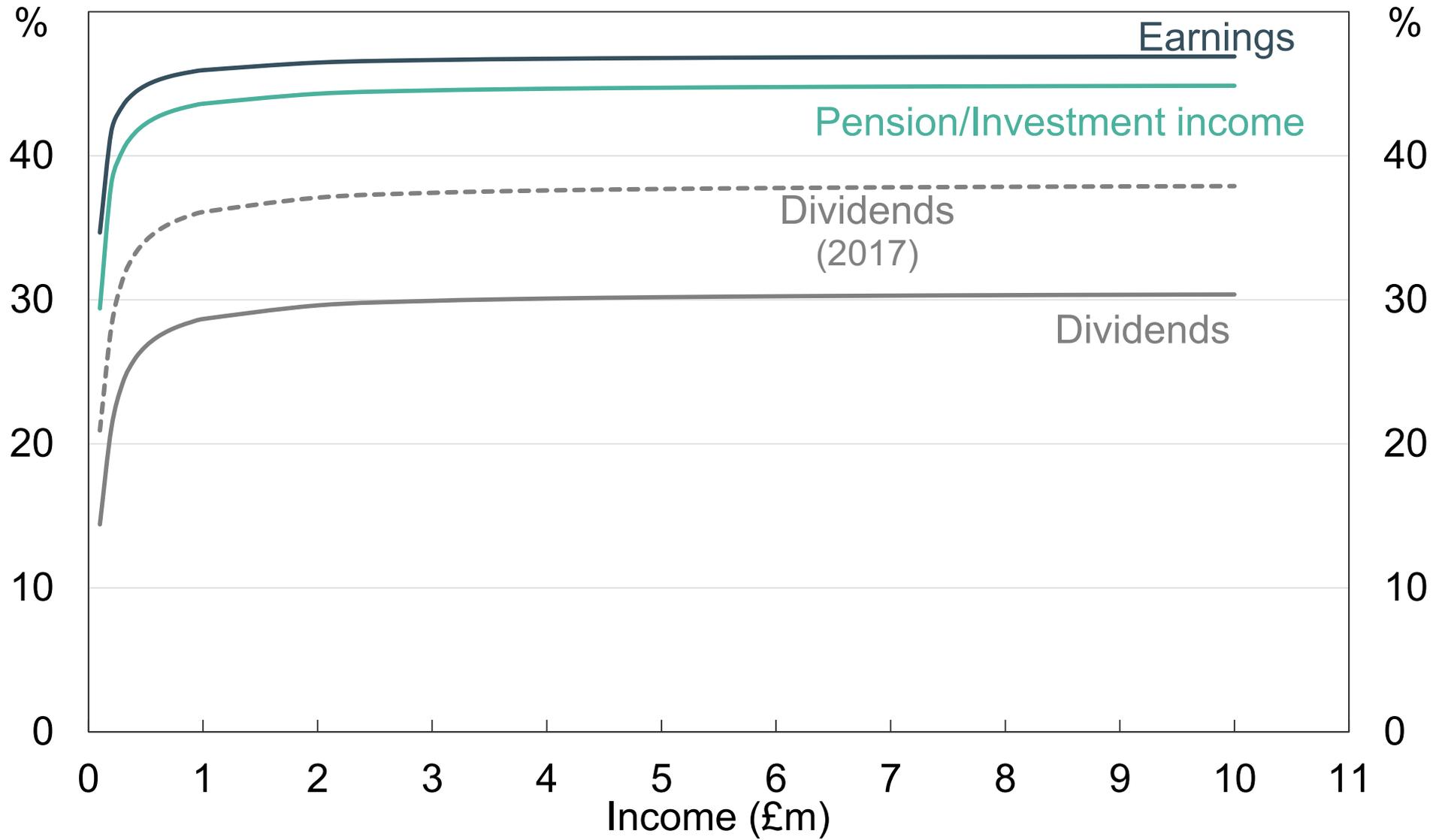
# Composition of Aggregate Taxable Income

By total income, 2016



# Headline Average Tax Rates

By income source, 2014-2020

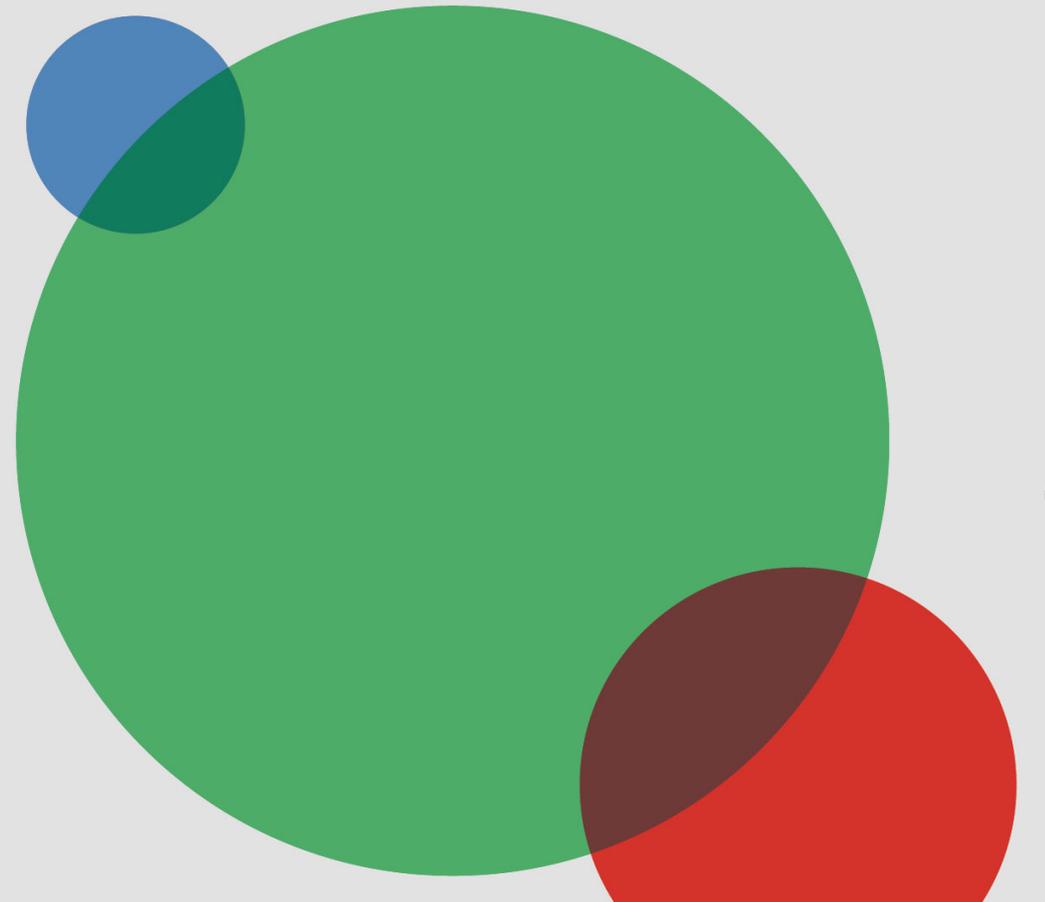




# The Scottish Context

How much tax do the rich really pay?

By Charlotte Barbour, Director of Taxation, ICAS



# **‘Scottish taxes’ include:**

## **Partially devolved**

- Scottish rates of income tax – but still a UK tax

## **Fully devolved**

- Land and buildings transaction tax; Scottish landfill tax;
- Also air departure tax and aggregates levy – but not yet in place

## **Assigned – VAT**

- A proportion of ‘Scottish’ VAT receipts – on hold

## **Local authority taxes**

- Business rates and council tax

**Like dividing a pizza – who gets which slice?  
And who sets the rules?**



# Tax planning

Involves the interplay:

- between income tax and corporation tax (especially for owner managed businesses), and
- between income tax and capital gains tax

(CGT – is an anti avoidance measure to prevent IT leakage)

If Scottish income tax rates differ from the rest of UK rates – may further influence **taxpayer** behaviour eg incorporate; or accumulate

For the **Scottish Govt** – transforming income liable to Scottish income tax, to either corporate income or capital gains, means the taxes are paid to the UK Exchequer, not the Scottish Exchequer.

# Numbers

<b>Tax rate</b>	<b>Numbers '000</b>	<b>percentage</b>
<b>Do not pay income tax</b>	1,983	43.6%
<b>Starter rate – 19%</b>	266	5.8%
<b>Basic rate – 20%</b>	1,042	22.9%
<b>Intermediate rate – 21%</b>	851	18.8%
<b>Higher rate – 41%</b>	387	8.5%
<b>Top rate – 46%</b>	17	0.4%
<b>Total</b>	4,546	100%
<b>Source – <u>Scottish budget 2020/21</u></b>		

# Future of Taxation in the UK – calls for reform

- Tax and the common good
- Making effective tax policy
- Devolving tax powers across the UK
- Professional relationships – regulation of the tax profession?
- Improving tax administration
- Going digital
- Agents and taxpayers - working together with HMRC
- Corporation tax and multinational enterprises
- Income tax, NICs and workers
- VAT in a post-Brexit environment
- Environmental taxes – adapting to changing conditions

# Devolving tax powers across the UK

- There should be a logical and consistent strategic framework for the devolution of tax powers across the UK
- Closer working between Westminster and devolved governments should be encouraged to ensure that UK tax decisions take account of the consequences for devolved taxes
- A more realistic timeframe for UK and devolved Budgets should be put in place
- A commitment to hold the UK Budget early in the autumn would assist devolved governments

# Questions

- The tax matrix in Scotland is complex – has this been factored in?
- The purpose behind the devolution of tax powers in Scotland is to bring accountability – would this be assisted by AMT?

(AMT – Alternative Minimum Tax)

- In Scotland there is interest in the land reform agenda – would AMT assist?
- Why would AMT be better than, say, reforming CGT?
- Why do you think CGT isn't charge at marginal IT rates?
- Should it be?
- Where does IHT fit in?