TAX DODGING AND INEQUALITIES IN WEALTH IN THE UK

feature

Daniel Dorling

As median incomes and wealth fall, as even the poorest of the best-off five per cent begin to feel the pinch, properly taxing the rich becomes possible again.

Most people pay all their tax. They pay Value Added Tax on most things they buy. If they earn, they pay income tax – as they earn. If they buy a home they pay stamp duty.

Some people dodge a little tax. They buy some cigarettes on the side in the pub, they take care of a friend's child and don't declare it, or they pay a builder cash in hand for a repair (£1.8bn a year is lost due to 'moonlighting', HMRC, 2011).

Corporate tax avoidance (dubious but not strictly illegal) was estimated by the TUC (Trade Union Congress) to be £12bn for the year 2008. Tax avoidance by individuals is believed to cost the Treasury £13bn a year Illegal corporate tax evasion comes to £70bn a year and unpaid corporate taxes to £26bn (TUC, 2010) a year – a total of £121 bn. Those in charge of UK tax inspectorate claim the figures are lower, but the tax inspectors themselves say, in confidence (Goodall, 2012), that the figures are broadly accurate.

These are considerable sums. But even if tax avoidance and evasion cost as much as £120bn a year, and even if all of it were being undertaken by or on behalf of the wealthiest 1% in society (most of it will be) that avoidance, evasion and refusal to pay accounts for only a very small part of the great inequality that has arisen in British society. Ending the dodging would certainly curtail the rise in inequality, but it would not reverse it. This is because the richest 1% are now so incredibly rich and powerful. Tax dodging must be reduced but reducing it alone would not be sufficient to reverse the trends in inequalities to *even* get us back to where we were in the 1980s in terms of how unfair and unequal a nation Britain has become. We know how unfair we now are because inequalities are nowadays more carefully measured.

In January 2010 the National Equality Panel used data from the Office of National Statistics to reveal just how unequal Britain had become. If all wealth is included then the-least-well-off-of the-richest-1%-of-people had £2.6 million or more while the person in the middle of the whole distribution had £204,500 (NEP, 2010. Figure 2.19b). However that figure includes the future estimated value of any pension entitlements you might have and any equity in your home.

The National Equality Panel elaborated to get us a better idea of 'marketable' wealth. If future pension benefits are excluded, then the poorest of the best-off 1% still had wealth in excess of £1.5 million or more while median wealth fell to £145,420 (NEP, 2010, Figure 2.18). Exclude also the estimated equity in the home people lived in and then the poorest of the 1% wealthiest of the population of Britain, had wealth of £665,650 or more, and the median holding was reduced to £42,270 (NEP 2010, Figure 2.17). Meanwhile the mean marketable wealth of the average person in the richest 1% was 175 times high than that median marketable wealth of the population.

To work out the mean marketable wealth of the richest 1% we need to estimate the wealth of everyone richer than the poorest of the 1% richest. The *Sunday Times* Rich list of 2010 showed the best-off 1000 people in Britain, headed by Lakshmi Mital, had a wealth of £335.5bn around that time. The best-off 10 of those 1000 held £69.9bn or 20% of that wealth. If that inequality curve continues down within the richest 1% then the average wealth of someone in the top 100,000 but not the top 1000 would be £13.5mn; the total wealth of the top 100,000 would be £1342bn; and the best-off 1% in total have an average of £7.4mn each (175 times £42,270). That's everyone from Mr-poorest-of-the-1% to Lakshmi inclusive. It's a guestimate. Wealth is secret.

The tables on p7 take a known series of wealth statistics (Dorling, 2011) and then subtract 20 year's worth of the annual £108bn unpaid taxes from the assets of the wealthiest 1% to produce a fictional 2028 wealth distribution if tax had been paid. If this happened then by 2028, instead of the wealthiest 1% having 421 times the wealth of the poorer half of all people in the UK, they would have 217 times, even if all that tax dodging was ended.

Eliminating tax dodging would reduce inequalities in wealth, but not to the levels seen prior to 2006. High income curtailment is also required. No one in the public sector or any private sector body tendering for public sector work should be paid 20 times more than another person. It is a waste of tax-payers' money. Imposing that limit would have a concertina effect down the distribution.

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Table 1: Inequalities in Wealth in the UK 1976–2008: Shares of Wealth (%)

	1976	1981	1986	1988	2006-8 (a)	(b)	2028
Top 1% of the population	21	18	18	17	28	53	36
Next 4% (top 5% less top 1%)	17	18	18	21	13	10	14
Top half excluding top 5%	54	56	54	56	51	31	42
Bottom half of all people	8	8	10	6	8	6	8
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Townsend 1991, page 33, marketable wealth at death from probate; and final columns calculated by author, a) excluding pension rights and, b) also excluding main residence housing equity from the wealth calculations.

Table 2: Wealth in the UK 1976–2008: comparison with the poor half

Ratio of wealth held	1976	1981	1986	1988	2006-8 (a)	(b)	2028
Top 1% of the population	131	113	90	142	165	421	217
Next 4% (top 5% less top 1%)	27	28	23	44	19	20	20
Top half excluding to 5%	8	8	6	10	7	6	6
Bottom half of all people	1	1	1	1	1	1	1

Source: Table 1 above. Wealth of each group is expressed in terms of multiples of the wealth of the average person in the poorer half of UK society. Note the 2028 series continues from 2006-8b. Data sources include NEP (Figure 2.20).

However, even then, and with tax dodging eliminated, the top 5% will still hold half of all wealth by 2028 (they hold 63% today). And most of that top 5%, maybe up to 80% of them or more, will not feel wealthy because they have so little compared to the other 20%.

More progressive income tax is required. Research shows that high rates of income tax do not inhibit economic activity (Picketty *et al*, 2011). A land tax might also be needed if wealth redistribution is to be returned to what it was in 1986 - the last time the poorest half of people in the UK had recourse to as much as a tenth of all wealth. (Table 1) A citizen's income may also be needed.

Changes in tax rates have had an even bigger impact on the amounts the rich pay than evasion, avoidance and non-payment of sums due. The wealthiest 1% have secured a series of changes in government policy. Just quite how they manage this is open to many interpretations, from the influence of press barons to the revolving door between government and the financial sector. But the evidence that this has occurred is easy to see. In countries like Britain where the richest 1% take so much, *effective* taxes on the richest are low and falling. It is not just that income tax on the richest 1% is being reduced on earnings over £150,000, from 50% to 45%, Corporation tax rates were as low as 28% in 2010 and are set of be reduced to 23% by 2013. In itself this is the same in lost revenue as dodging 18% of all that tax.

Manipulating the political process to create a favourable tax regime is only possible when the rest of the population feels it is getting better off. As median incomes and wealth fall, as even the poorest of the best-off 5% begin to feel the pinch, properly taxing the rich becomes possible again. And the wealthy know that.

The wealthy know that many of the options just listed are possible. That is part of the reason they hide so much of their wealth. It is not just to avoid tax. They fear retributive redistribution for the theft of the common wealth of the course of the last generation. The very wealthy often wonder when the 99% of us who have not done so well out of government policy will wake up and do something. They might think we are stupid, but they don't think we are that stupid. If they thought we were really stupid they'd keep all their money in Britain:

"In March 2009 a Swiss banker quoted in the *Financial Times* said he believed that half of all funds deposited in that country would leave if bank secrecy was abolished – implying they must be tainted by tax evasion – and that the bankers know it." (Murphy, 2011, page 33)

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Danny Dorling is professor of human geography at the University of Sheffield, England. He is an academic geographer and author whose books include Injustice: Why Inequality Persists *and* The No-Nonsense Guide to Inequality.