Taxing the better off

The majority of you who responded by email or blog post to my piece on the four millionaires thought none of them was rich. A few of you thought they were and thought I should concentrate on more representative people from amongst my constituents.They should study modern Britain more closely. Most of my constituents own their own house. Many of them own homes worth £250,000 to £1 million. Many also have savings, especially through company or individual pension funds. If they have provided for a pension of £10,0000 that's another £200,000 of assets. Many look forward to larger pensions than that.

It is true I am talking here mainly about the older half of my electors. I write regularly about education, training, acquiring a first home and then a family home, and the need for more better paid jobs, all very relevant to the younger half. People in the age range 18 to their early 50s tend to be acquiring homes, paying off mortgages and accumulating pensions, whilst people from their 50s onwards often own their own home, have repaid their loans and have savings. Younger people are also of course interested in wealth taxes as they may be involved in the finances of their parents in older age.

Let us now look at the taxes that impact people with homes, savings and pension pots. Two things emerge. The first is tax has a big impact on how people hold their wealth. The second is many feel they have been cheated by the state over the years as successive government have changed the rules and broken previous government promises.

We were encouraged to save as young workers for our retirement through tax privileged pension funds.Instead of using our savings to invest in a business or improve our homes or to boost our living standards as younger people we duly put the money away. Years later government decided to change the rules, saying if you had saved too much (a level never mentioned before)or been good at investing those savings they were going to tax it after all. Large suns are now locked up in pension funds people do not wish to use because of the big tax hit if they do.

George Osborne promised to exempt £1m of assets from Inheritance tax for each family. This was a surprisingly popular pledge, given how few people will be in the position of receiving such a large inheritance. He then failed to deliver, keeping the sum at £650,000 with complicated rules about family homes as a top up in some cases. Many people go to great lengths to avoid any possibility of IHT through the many legal ways it can be avoided.

Elderly people who bought themselves good family homes, or built or improved a home, now find they are hit by sky high Stamp duties if they want to trade down to something smaller or wish to move closer to their children.Younger people are also clobbered as they try to move up the property ladder. Stamp Duty encourages immobility, poor use of the housing stock and is a direct tax on aspiration and personal happiness.

Capital Gains tax also immobilises a lot of wealth. People with second homes and or share portfolios are reluctant to sell these assets where they are sitting on taxable gains. They keep homes they would rather switch to a different location, or switch into different assets altogether. Many share owners tell their investment managers not to take profits above the tax free allowance each year.

Our tax system over the years has favoured investment in your own home and in a pension portfolio of large company shares and bonds, limiting entrepreneurship and more interesting ways of saving. Because so many people responded to these tax reducing ways of saving governments then cheated people by finding ways of taxing them after all. We need fewer and lower taxes on changing assets around to encourage better use of capital.There are too many homes held by people who do not need them or want something more suited to their latest needs, and too many shareholdings only held because they sit on big gains when the money could be used for something the person needs more, or to reinvest in a better prospect.

Bank holiday parking in Wokingham is not all free

Some of the car parks and on street parking is free tomorrow and on other bank holidays and some is not. Do check the complex rules carefully before parking, as Wokingham does enforce parking charges on Bank holidays. Don’t ruin a great day by running up a parking fine.

Wokingham car parks

I have asked the Council about the closure of the Euro car park on Denmark Street. They remind us this is a private car park, and they like some of my constituents are against its closure. They are in discussion with the owners.

The council agrees we need to keep sufficient parking places close to the centre to assist its success. People have many shopping and leisure choices so Wokingham needs to be welcoming to people coming by private vehicle.

I have seen a number of constituents struggling with the new car park pay machines. The ever vigilant Parking attendants are willing to explain the new system to those who want help. You do need to memorise your vehicle registration and type that in first. Then you have to decide between paying by cash through the coin slot or by card.

France, Germany and the USA

There are those who seem to think the UK is too small and too unimportant to be an independent country. They think we need to choose between submerging our identity with the EU and accepting their government, or being a junior partner of the USA and accepting US decisions and standards. The people who think like this favour us being controlled by the EU, and spend their time running down the USA at every opportunity. This doctrine is reflected in the EU's spin, with President Macron warning us we will be opting for junior status in some kind of USA Union if we dare to implement our wish to leave the EU.

This view is absurd. There are many advanced successful countries in the world who are neither members of the EU nor client states of the USA who are considerably smaller than the UK in population, in total wealth and military power. From New Zealand to Singapore, from Australia to Canada, there are prosperous countries that have alliances with many but are ruled by none other than themselves.

It is also a dangerous myth that the EU or Europe is in some way capable of defending itself. Most European countries like the UK are members of NATO, and rely on the US defence umbrella and the NATO guarantee of mutual assistance for their defence against potential large aggressors. NATO is a better arrangement than the EU, offering mutual support but not enforcing a legal obligation on each NATO member to provide troops and weapons to every NATO action. For many years it has helped keep the peace in Europe and ensured the continuing commitment of potentially huge US forces to the defence of the West.

If we look back at our history we will see that we have in the last 250 years been at war with France, with the USA and with Germany. The war with the USA was in stark contrast to the war with the other two. The UK lost, with many in Britain unhappy about taking up arms against US settlers from the UK who had similar views of liberty, limited government and taxation to the home country. The USA triumphed not only by might but also by right, and since then relations have usually been mutually supportive.

In the cases of the long wars against France and Germany the UK's role was totally different. Here the UK stood alongside the small and oppressed countries of Europe that had been invaded and quelled by the imperial powers, and fought successfully for their liberation. Once again might and right combined to ensure a happy outcome after terrible violence. These victories made the UK a good European, and showed that many people and nations did value self determination and self government. When British armies finally reached France at the end of the Napoleonic wars and Germany in 1945 those nations were relieved and surprised that the British army was banned from looting, rape and commandeering supplies, and duly paid for food and other items needed. It made the point that this was no army of occupation or oppression, but liberators of Europe from tyranny who planned to go home as soon as their job was done.

Today the threat is of course not from violent conquest but from clumsy bureaucracy and poor EU wide economic policies stifling opportunity and limiting the political expression of democratic electorates. Architects of the EU project itself say the UK will become a colony of the EU if we dare to leave. This worrying language or poor joke sums up what is wrong with their analysis. The UK does not have to choose between staying in a centralising EU or accepting poor terms from the USA for a deeper and closer relationship with her. The UK can continue to champion global free trade, democratic self government and a world diplomacy to try to settle world problems. We will continue to need NATO to help with our defence and with our contribution to global security, and we will continue to trade with the EU and the USA with or without free trade deals. We need only accept a Free Trade deal if it works for us as well as for them.

Taxing the rich?

The government has indicated it wants to cut income and wealth taxes. Doubtless the cry will go up from Labour that this will be tax cuts for the rich. In trust in practice it will be tax cuts for all. Today I want to seek your advice on who are the rich that Labour wants to tax.

Let’s begin with a group of millionaires. Many would say automatically all millionaires are rich, because by definition they have a million pounds of assets which no poor person enjoys. Here are some interesting millionaires:

Mr A is an elderly pension living on his own in a modest one bedroom flat in central London. He bought this many years ago, and it is now said to be worth £1m even though it is not in a good state. He has no other savings and lives on the state retirement pension and top up benefits. He cannot afford a car or holidays. He does not want to move as his friends and support group live nearby.

Mr B is another elderly pensioner who lives in a modern flat in a market town, worth £250,000. He has an investment fund worth £750,000. With his adviser he plans to draw down around £50,000 every year to spend, and reckons with the anticipated returns his fund might last him 20 years. He will adjust his drawing up if the investments do better, and down if they do worse. He also has his state pension.

Mrs C recently sold her £750,000 family home on the death of her husband. She also has £250,000 of other savings. She has bought a £250,000 new smaller home. She has given £250,000 to each of her two children to help them with housing and private education costs for her grandchildren. She has bought an annuity with the other £250,000 to provide her with an income of £10,000 a year to add to the state pension.

Mrs D and her new partner have just sold her £1m house and have decided to rent. They also plan to spend their way through the £1m whilst they are still in good enough health to enjoy the cruises, expensive hotel stays, grand events and good restaurants they have always wanted to try. They expect to spend at least £100,000 a year. They take the view that no-one knows how long they will live and you cant take the money with you.They say you can always rely on the state if you live for a long time.

Are all 4 of these people rich? If not, which if any of them are rich?
Mrs C is no longer a millionaire because she chose to give money away. Mr A is very income poor and depends on state top ups for his income. Mr B is on a well above average income, but will be depleting his capital, taking it down to very little over the balance of his lifetime. Mrs D will spend like a rich person but will run out of cash quite quickly as she does.

Do we tax them fairly? Those that spend away their capital will pay more VAT but less income tax and capital gains. Those who keep their savings will pay more income tax and capital gains tax. Those who move will pay more Stamp Duty. Those who run down their capital will not only pay less income tax but will receive more state benefits if they live long enough. Those giving money away before their death will be trying to find ways to avoid Inheritance Tax.

Observant readers will realise that all these people have the same options as each other because they all start with £1m of assets.