

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 £10,000 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 governments 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 sums 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.