

Who are the rich?

If we are going to develop a better approach to taxing the better off, we first have to decide who is better off. One of the most difficult issues which tax policy has to face is the relationship between capital assets and income. How do we feel about people who are asset rich but income poor, or people who are income rich but capital poor?

Let us look at some difficult examples.

Mrs Hardup is a widow living in a one bedroom flat in what is now Chelsea – it used to be Fulham. She lives on a state pension, with no savings or private pensions to top up what the state provides. She and her husband bought the flat in the 1960s when it was much cheaper, and paid off the mortgage. Doing that got in the way of other savings. The flat is worth £1.2 million today.

Mrs Lucky lives in a Council bungalow on her state pension, but has recently won £1.2 million on the lottery. She has so far put it into cautious investments. She might live for another 20 years, so she could draw down and spend more than £60,000 a year depending on how well she invests the money. Alternatively she could buy herself a property, remove the rent bill and pay herself a bit less.

Mrs Hardup decides to sell her Chelsea flat, move and buy a small detached property near her daughter in Bolton for £200,000, leaving her £1 million to invest to provide her with an income well above the national average.

Mr Feckless retires early, sells his £1.5m southern counties executive house, buys a £500,000 smaller property, and spends three years on expensive cruises, buying luxury cars and other consumption, using up much of his spare £1m.

Mr Prudent retires with a good pension of £35,000 a year, and continues living in his £1.5m southern executive home. He is surprised by the choices of his former neighbour, Mr Feckless.

Mr Whirlwind is in the prime of life and earns £150,000 a year. His income has risen quickly recently, and he has been too busy to get round to buying a home of his own. He pays a lot out in rent for the smart new property he has recently taken on, eats out most days and takes expensive holidays. He has few assets.

Do we have views on which of these, if any, is rich? Do people have moral preferences over who should pay more? Should we tax income more, because it is available to be paid to the government as it comes in? Should we tax assets more, to make people reorganise their assets?