the case for capital taxes
Oliver Stutchbury
fabian tract 388
£M
£000
£000
£000
4s
# Fabian Tract 388

**The Case for Capital Taxes**

## Contents

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Personal Taxation Today</td>
</tr>
<tr>
<td>2</td>
<td>Consequences of the Existing System</td>
</tr>
<tr>
<td>3</td>
<td>The Remedies</td>
</tr>
<tr>
<td>4</td>
<td>The Consequences</td>
</tr>
</tbody>
</table>

## Appendix

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Draft Legislation</td>
</tr>
</tbody>
</table>

---

This pamphlet, like all publications of the Fabian Society, represents not the collective view of the Society but only the view of the individual who prepared it. The responsibility of the Society is limited to approving the publications which it issues as worthy of consideration within the Labour movement.

Fabian Society, 11 Dartmouth Street, London SW1
December 1968

7163 0388 4
1. personal taxation today

This pamphlet is about the taxation of a comparatively small class of the electorate: those people who pay surtax and/or those who have inherited or been given substantial sums of money. Some may argue that these “very well off” members of the community are not a pressing political problem, but if they argue in his way they make a mistake. First, it is not true that members of this class are all “very well off”: a recent survey by A. J. Merrett, *Executive remuneration in the United Kingdom*, p. 40, Longmans, 1968) showed that a quarter of the directors of companies sampled, although high income earners, had no disposable wealth at all and were in debt by amounts ranging up to £10,000. Second, the members of this class are crucially important because it is from them that our “managers” are drawn.

In the last analysis”, wrote the authors of the PEP report (*Attitudes in British management*, p. 11, Pelican Books, 1966) “the growth of the economy as a whole depends on the efficiency and growth of the individual firms and these, in turn, are determined largely by the men who manage them”. They illuminatingly divided managers into two classes: thrusters and sleepers, and pointed to the way in which sleepers could be encouraged to become thrusters in order to improve their own and the country’s efficiency.

Using another basis of comparison, managers can be divided into two other classes. There are the managers who have inherited or been given fortunes, or achieved their positions in businesses through the agency of those who have inherited or been given fortunes: these I call the *Conservers* of wealth. On the other hand are those managers who have had to make their own money or who have achieved their positions by their own unaided endeavours: these I call the *Creators* of wealth. Although the class of sleepers does not exactly coincide with the class of *Conservers*, or the class of thrusters with *Creators*, there is a close correspondence between the two. This correspondence is not accidental.

The British system of direct taxation on individuals is mercilessly severe on the *Creator*, but, provided relatively painless estate duty avoidance procedures are set in train, the system exacts very little indeed from the *Conserver*. This is to put the weight of the tax burden exactly the wrong way round if the country’s efficiency is to be promoted. It is the purpose of this pamphlet to show both how and why the tax burden on this comparatively small class of the electorate should be shifted.

direct taxes on capital

There are at present two major direct taxes on capital borne by individuals in the United Kingdom: death duties and the capital gains tax. I am not concerned at this stage in my argument with the capital gains tax. It was imposed by the 1965 Finance Act and it is too soon yet to judge what effect it may have. Moreover, it affects only those people who have some capital and who have “realised” it in the course of the year. I am concerned with the only other tax on capital: death duties.

Death duties date from the 1894 Finance Act. They levy duty on the principal value of all property real or personal, settled or not settled, which “passes on death”. The net is cast wide and large classes of property in which there is no actual “passing” on death are “deemed to pass” on death. For example, certain companies can, by the 1940 Finance Act, find themselves charged to estate duty (although they cannot be said to die at all) when someone who has, or had, a financial interest in them dies.

Originally the maximum rate of estate duty was 8 per cent (payable only on estates of £1 million or more) but the rates of duty have increased sharply over the years since 1894. They now range from 1 per cent for estates between £5,000 and £6,000 to 80 per cent for estates over £1 million. The yield from death duties to the Exchequer in 1967–8 was £330 million. In most cases, the whole amount of duty is payable on delivery of the Inland Revenue affidavit.
Provided a rich man takes no measures whatever to avoid estate duty, and dies, the government gets a reasonably fair and progressive slice of what is passed on to the beneficiaries of his estate. Indeed, in certain circumstances it may be argued that the burden of the tax is excessive. But the fact is that anybody who takes any trouble at all can escape liability to the tax altogether. All he needs to do is to “give away” his money a sufficiently long time before he dies. Then he and his heirs escape any tax of any kind. Hence the truism that estate duty is a voluntary tax.

The business of assisting rich men to “give away” their money is now a highly competitive industry absorbing the talents of a number of insurance brokers, lawyers and accountants. The reader of this pamphlet will be familiar with the kind of advertisement which appears regularly in the financial columns of newspapers with an AB readership: “Reducing estate duty is a highly complex task. Many people still do not realise that it can often be done painlessly—that is, without reducing income or converting assets....” People who are worried by their estate’s potential liability to estate duty are invited to send in for booklets explaining how this “painless” process may be effected by “well-known specialists in this field.” In the case of smaller estates, a man who has no taste for insurance brokers or other professional advisers simply gives his money away at least eight years before he dies. A voluntary disposition by deed carries an ad valorem stamp duty at the derisory rate of 1 per cent on the capital value. This duty is one of the very few to have been actually reduced (from 2 per cent) in recent years. Moreover, there are abatements of estate duty and stamp duty where a gift is made in consideration of marriage.

Where an outright gift is inappropriate, the unit of ownership has become the group or family, not the individual; and, if estate duty is to be avoided, the nature of the interest owned, or the identity of the owners, must remain unchanged on the death of any particular individual. Hence the rise of the “discretionary trust.” A discretionary trust is a legal construction by which a rich man (or woman) settles a fortune or part of it upon trust to distribute the capital and income at the trustees’ discretion among a wide range of “objects”—of which the settlor’s descendants are usually the most prominent. Provided the “objects” do not include the settlor (or his spouse) and the number of surviving discretionary objects exceeds one, the trust never attracts estate duty on anyone’s death and the income from it ceases to be an embarrassment to the rich man during his life.

Moreover these trusts can endure over an almost interminable period. By choosing his trustees with care and reserving to himself the right to appoint new trustees, a rich man can effectively control the application of his wealth during his life (and the power which that wealth commands), escape liability to surtax on its income, and ensure that his descendants are reasonably affluent as far ahead as anyone can foresee. So estate duty is now paid only by the misanthropic, the patriotic, the absent-minded or the downright unlucky.

One has only to list some of the arrangements that have recently been before the courts under the Variation of Trusts Act, 1958, to see the kind of fish that are swimming clear of the Revenue’s net. Estate duty can be successfully avoided only if the death of a deceased person causes no change of beneficial interests in the trust capital. But if a person’s sole income derives from his interest in a trust, he cannot forego that interest without compensation. So the actuaries do calculations and with their help the lawyers carve up and distribute the trust capital between the various beneficiaries in proportions which are equitable as between the beneficiaries (but not as between the beneficiaries and the Exchequer).

This kind of carve-up can be, and is, done privately, without publicity, provided that all the beneficiaries are of full age and of sound mind. We then hear nothing about it: and neither does the Estate Duty Office. But in many cases a
settlor has wished to legislate for infants and unborn children. The issue then comes before the courts. The Variation of Trusts Act provides that the great carve-up can also be made (subject to the court's approval) when infants and unborn children are involved, and so we see some of the great private family fortunes publicly exhibited in all their gratuitous splendour, and some of the schemes whereby the families concerned will be unable to continue their gracious living or another half-century or so.

On 23 March 1966 The Times reported the case of the Duke of Norfolk's Will Trusts. What had happened was that the present Duke's father, who died in 1917, had left his estates on complicated trusts. Among other matters, there would have been a heavy liability to estate duty on the death of the present Duke, because he settled estates were worth no less than £3 million in 1966. In the carve-up which the court approved, the present Duke took a mere £130,000 together with £81,000 for timber—to which he was already entitled. The Duchess received £51,000 and the Duke's four daughters £35,000 each. There was a payment of £350,000 to General Fitzalan Howard; and his elder son (aged ten in 1966) will one day inherit £1,246,000 at 1966 values—some £900,000 more, his counsel said, than he would have done had the original trusts endured and estate duty been paid.

In 1964 and 1965, families with titles or names like Bristol, Paget, Courtauld, Cohen, Drewes, Guinness, Clore and Petifar all came before the court under the Act—and made new law by elaborating the principles on which the court would bless estate duty saving schemes. The cases in which new law was not made (and these number many hundreds) are not reported. In 1956 the Sainsbury family went to the court with a view to avoiding capital gains tax, in addition to estate duty. On 21 October 1966, the Financial Times reported that Mr Justice Goff had approved a scheme under which Lord Sainsbury's two younger sons' interests were accelerated in a cool £5.2 million worth each of Sainsbury's shares. The next day the judge went on to consider a similar application involving a £13 million settlement by Lord Sainsbury's brother, Robert James Sainsbury, of which the principal beneficiary was his son, David John Sainsbury, aged twenty-six years.

May I emphasise here that I have nothing whatever against the Duke of Norfolk or Lord Sainsbury (or their respective families)? Both are conspicuously public-spirited men. Nor do I object to the use by them, or their families, or their professional advisers, of the mechanism of the courts to avoid tax. While the law is fatuous, fatuous results are inevitable. I just wish to draw attention to the fact that there is no let or hindrance, and no taxes imposed on transfers of fortunes down the generations of a single family. This is the yawning gap in our supposedly egalitarian tax system.

**Direct taxes on income**

In contrast to the haphazard way in which capital is taxed, the two direct _taxes on income_—income tax and surtax—are ruthlessly efficient. Income tax is a general tax on an individual's income derived from every source. The tax was introduced by William Pitt in 1798 and except for the years 1816-1841 has been in force ever since. From its inception it has been _progressive_ and people with larger incomes have very properly paid a higher rate of tax. In the tax year 1957-8 it raised for the Exchequer no less than £3,817 million and it is by far the most potent fiscal measure affecting individuals which is at the disposal of the government. Surtax, which taxes successive _slices_ of annual income in excess of £2,000 (or £5,000 in the case of _earned_ income) was imposed by Lloyd George's 1909 Finance Act and has been levied ever since. By comparison with income tax, surtax is an indifferent revenue producer. In the tax year 1967-8 it raised only £232 million.

Tax rates on an individual's top slice of income first became formidable in the 1914-18 war. Afterwards the rates were reduced for some years until the 1939-45 war, but they have remained high ever
since. Between 1941 and 1953 taxpayers in the top bracket kept only 6d in the pound of the top slice of their incomes. Although this rate was slightly eased for a period between 1955 and 1965, in the tax year 1965–6 a special impost of 10 per cent of the surtax payable on an individual’s income brought the rate back to just under the 1953 level. As a special measure in the 1968 Budget, a tax on unearned incomes for the tax year 1967–8 was levied at a rate which could exceed the income on which the tax was paid.

In contrast to the taxes on capital, British taxes on income are impossible to legally avoid and nearly impossible to illegally evade unless the individual is trading on his own account and takes cash from the till. This is because most taxpayers are employed persons, and owing to the highly efficient Pay As You Earn system of collection of income tax at source, the tax payable is deducted from every employee’s pay packet or salary cheque and paid direct to the Exchequer by the employer.

The precise incidence of the two taxes varies considerably between taxpayers as a result of an extremely complicated system of “allowances” and “reliefs”. But the broad picture is clear. The financially capable executive who gets to the very top of the tree can look forward to retaining only 1s 9d of every additional pound of income he earns. Mr David Barran, when appointed Chairman of Shell Transport and Trading Co Ltd announced that he would not take the additional Chairman’s fee to which he was entitled. “I see no point in giving more money to Mr Callaghan”, he said (Financial Times, 9 February 1967).

Moreover, long before he is in the highest brackets, the taxpayer is retaining less than half the marginal income on which he is paying tax. For a married man with two children the marginal rate rises very steeply indeed where the taxpayer’s income exceeds £4,000 per annum.

<table>
<thead>
<tr>
<th>MARGINAL TAX RATES</th>
<th>tax per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>£4,000</td>
<td>37</td>
</tr>
<tr>
<td>£6,000</td>
<td>50</td>
</tr>
<tr>
<td>£8,000</td>
<td>58</td>
</tr>
<tr>
<td>£10,000</td>
<td>74</td>
</tr>
<tr>
<td>£15,000</td>
<td>88</td>
</tr>
</tbody>
</table>

Incentive to push his income above £6,000 and almost no incentive to aim at £10,000. And whether Lord Beeching gets £15,000 or £25,000 is almost entirely a matter of prestige and hardly one of cash at all”. It is now generally recognized that a married man with children, no matter what he earns, will be lucky to break even taking one year with another, after meeting his surtax demand (A. J. Merrett and D. A. G. Monk Inflation, Taxation and Executive Remuneration, Hallam Press, 1967). Anything he is able to save will be trivial compared with one year’s normal expenditure: less than one-third of the salaried and professional directors sampled in the survey previously mentioned will ever achieve the small distinction of acquiring disposable wealth greater than twice their annual before-tax salary.

**Conclusion**

The present position, therefore, in this country as far as direct taxes on capital and income are concerned is this. On the one hand, a closed class of privileged persons namely those who are born in the right bed—is gratuitously being enriched by huge chunks of money or money’s worth and is paying very little tax on this enrichment. It is from this class that the Conservers of wealth are drawn. On the other hand, a financially capable executive who gets to the top of the tree who is unlucky enough to have no one to give him anything, is taxed at confiscatory levels on what he earns by his own exertions. It is from this latter class that the Creators of wealth are drawn.
2. Consequences of the existing system

The main consequence of the absence of an adequate tax on capital is the staggering inequalities in the distribution of personal wealth. If one abstracts from the Inland Revenue statistics for the tax year 1965–66, the details of taxpayers’ investment income, one gets the figures set out in the table below.

In the tax year 1965–66 there were 21.7 million taxpayers in the UK. Of these:

1. Only 4 million had any investment income.
2. Under 500,000 owned no less than 60 per cent of the total investment income.
3. 37,490 taxpayers had investment income in excess of £10,000 per annum.
4. If one reckons that these 37 thousand people were making an average yield of 4 per cent on their money, they must on average have been endowed with fortunes in excess of £250,000 each. And that is the kind of money which, except in the very rare case, can nowadays only spring from inheritance or gift.

“Well”, I can hear the Conserver argue, “what is so very wrong with this? Is not private property sacred? The government takes enough in all conscience from the rich man in income taxes. What possible justification can there be for prohibiting a man from giving what is left to him to whom he pleases? Or, what is only a degree less bad, for exacting a heavy tax from him when he does so? Why should not a man leave his money to his children (or anyone else for that matter) without the State taking a major part of it on the way?”

To this there is an overwhelming answer. To every gift there must be two parties: the donor and the donee, the testator and the legatee. We may grant that the donor or testator has grounds for complaint if his desires or intentions are baulked. But why on earth should the donee or legatee, without exertion, enterprise or ability become possessed of anything at all?

The possession of a quarter of a million pounds confers very great power. In the business world a man is ultimately judged by the amount of money he has got and not very much else. Whether he has been given it or has made it himself is immaterial. The main consequence of the haphazard way in which capital is taxed, or left untaxed today is that far, far too much power is in the hands of the Conservers.

It needs only a slight acquaintance with, for example, the City of London to realise how many of the crucially important administrative posts go to men whose sufficient qualification is the inheritance of wealth. In firm after firm one or two families hold the power, and are served

<table>
<thead>
<tr>
<th>SPREAD OF INVESTMENT INCOME</th>
<th>net income range (all income)</th>
<th>net invest. income £000</th>
<th>%</th>
<th>running total</th>
<th>number of cases 000</th>
<th>%</th>
<th>running total</th>
<th>£ per case</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 499</td>
<td>67,560</td>
<td>3.8</td>
<td>3.8</td>
<td>598</td>
<td>14.7</td>
<td>49.9</td>
<td>113</td>
<td></td>
</tr>
<tr>
<td>500–999</td>
<td>195,100</td>
<td>10.8</td>
<td>14.6</td>
<td>1,428</td>
<td>35.2</td>
<td>73.3</td>
<td>177</td>
<td></td>
</tr>
<tr>
<td>1,000–1,499</td>
<td>161,090</td>
<td>8.9</td>
<td>23.5</td>
<td>908</td>
<td>22.4</td>
<td>82.9</td>
<td>304</td>
<td></td>
</tr>
<tr>
<td>1,500–1,999</td>
<td>129,840</td>
<td>7.2</td>
<td>30.7</td>
<td>427</td>
<td>10.6</td>
<td>87.8</td>
<td>535</td>
<td></td>
</tr>
<tr>
<td>2,000–2,499</td>
<td>106,940</td>
<td>5.9</td>
<td>36.6</td>
<td>200</td>
<td>4.9</td>
<td>90.8</td>
<td>851</td>
<td></td>
</tr>
<tr>
<td>2,500–2,999</td>
<td>102,300</td>
<td>5.7</td>
<td>42.3</td>
<td>120</td>
<td>3.0</td>
<td>94.1</td>
<td>1,195</td>
<td></td>
</tr>
<tr>
<td>3,000–3,999</td>
<td>164,040</td>
<td>9.1</td>
<td>51.4</td>
<td>137</td>
<td>3.3</td>
<td>96.0</td>
<td>1,630</td>
<td></td>
</tr>
<tr>
<td>4,000–4,999</td>
<td>125,770</td>
<td>6.9</td>
<td>58.3</td>
<td>77</td>
<td>1.9</td>
<td>97.2</td>
<td>2,152</td>
<td></td>
</tr>
<tr>
<td>5,000–5,999</td>
<td>104,690</td>
<td>5.8</td>
<td>64.1</td>
<td>49</td>
<td>1.2</td>
<td>98.5</td>
<td>3,037</td>
<td></td>
</tr>
<tr>
<td>6,000–7,999</td>
<td>152,300</td>
<td>8.4</td>
<td>72.5</td>
<td>50</td>
<td>1.3</td>
<td>99.1</td>
<td>4,165</td>
<td></td>
</tr>
<tr>
<td>8,000–9,999</td>
<td>102,250</td>
<td>5.7</td>
<td>78.2</td>
<td>25</td>
<td>0.6</td>
<td>99.0</td>
<td>10,477</td>
<td></td>
</tr>
<tr>
<td>10,000 and up</td>
<td>392,790</td>
<td>21.8</td>
<td>100.0</td>
<td>37</td>
<td>0.9</td>
<td>100.0</td>
<td>4,057</td>
<td></td>
</tr>
</tbody>
</table>

Source: Inland Revenue statistics, 1965–66
by others whose competence is far greater. Moreover the City is not the only place in which inherited wealth is dominant, although it is probably the most conspicuous and important. In landowning, farming, glassmaking, shipping, brewing, confectioning, and steel-making until recently, and countless other activities it is the luck of where he is born that determines what sort of chance a person has of getting to any position of consequence. Thus Lord Iveagh in his Chairman's statement to the members of Arthur Guinness & Company Ltd on 9 December 1958: “It is a great joy to me, and an indication of our vitality [sic] that this year I have been joined on the Board by my grandson.”

Today that grandson is Chairman of the company. One has only to read the surnames of the directors of old-established businesses in these industries (and more particularly among the merchant bankers) to have evidence of how widespread nepotism is.

It is not only in industry and commerce that the power of the Conservatives is felt. Today it is virtually impossible for an able and ambitious young farmer to aspire to run his own business—unless he is a farmer's son. He will never be able to outbid the man who has been given the capital needed.

In the political field the Conservative Party in the country is dominated by Conservatives. They are the ones with the necessary time to spend to do the unpaid party jobs. Similarly up and down the country key appointments in local government, education, even in the legal and medical professions, are being made by panels composed of people whose sufficient qualification is that they have inherited the money which enabled them to be where they are.

severity of taxes on income

What are the consequences of the rigour of the taxes on income in Great Britain? I will begin by mentioning the most obvious consequence: but I would like to stress that I am not arguing that this consequence is, in itself, a bad thing. Indeed it can be argued that it is a good thing if we are to have a reasonably egalitarian society. The most obvious consequence of our present system of taxation on income is that when our married taxpayer with two children has reached the £6,000 per annum mark, there is no way at all in which he can do better for himself financially except by finding loopholes in the law. Two of these loopholes in the law seem to me to be deplorable—and I see no hope of tightening them up under the present system. I refer to the “perquisites” racket, and the pensions drag.

the “perquisites” racket

One of the results of the extremely high rates of surtax is the expenses, perquisite, fringe benefit industry (call it what you will). The fact is that very many people in all sorts of jobs, not just Prime Ministers, but company chairmen, and salesmen entertaining foreign buyers, in order to do their jobs well, need to spend money on such “extravagances” as buying a customer or competitor a drink, attending a conference, taking a taxi to save time, spending a night in the centre of London to arrive fresh for a meeting early the next day, and so on. The list is inexhaustible. Mothers going out to work need to be able to pay someone to look after their children. Someone writing a book in his spare time needs to be able to pay someone else to mow the lawn.

This need extends to doctors and clergymen, civil servants and probation officers, dons and bank managers alike. But if these people pay for these small “extravagances” out of their own pocket, they cost more by the top rate of the tax they pay, than if they get them allowed as an “expense” against tax. Whether they are allowed them as an expense, although moderately clear to the tax expert, has the appearance to an outsider of being entirely haphazard: a company chairman is allowed his chauffeur, but a woman teacher with children is not allowed a daily help.
One cannot help noticing with a certain wry smile that the first people to appreciate all this were our precious legislators themselves. The “expense allowance”, we are told (Simon’s Income Tax, vol 2, p 603), “owes its origin to the payment of Members of Parliament. Members have to incur many petty expenses and the question of these had been settled by agreement with the Treasury, whereby a minimum allowance was to be given without production of actual proof. This rule regulates the position”. Moreover, the Prime Minister (and this is no reflection on the present incumbent—Conservative Prime Ministers have derived more advantage from the concession than he has) cannot stand the racket of his own tax. In 1947 in reply to a question Hugh Dalton said,justifying this tax free allowance: “An additional £5,000 a year was added to the salary of the Prime Minister in 1937 in order to enable him to discharge the public duties indispensable to his office and to his residence at No 10 Downing Street. While there has been no reduction in these duties, the effect of taxation has been to reduce the net salary to about the same as before the increase. It has, therefore, been decided that £4,000 of the salary of the office should be treated as an expense allowance which will be deducted for Income tax. I am sure that the House will agree that the arrangement is a fair and reasonable means of ensuring that the Prime Minister may be able to fulfill his duties with dignity and efficiency. Hon Members: Hear, hear.” (Hansard, vol 433, p 523). Not a single supplementary question was asked.

So there has grown up a deplorable industry centred round the activity of “putting in for expenses”. Capable men spend hours keeping and sorting chits, and then claiming every possible and impossible payment as wholly, exclusively and (sometimes) necessarily incurred in the earning of profits. Phrases like “I wonder what the revenue will wear” abound. Professional men employed by taxpayers spend hours wringing from a reluctant revenue rulings about how much may be spent on certain “extravagances”. It is financially advantageous to taxpayers to dance all sorts of odd capers to lower the tax burden. The Times of 10 May 1968 reported a case in which the Court of Appeal had ruled that an employee who was given free use of a car by his employer in return for a reduction in his wage was not liable to tax under Schedule E on his gross wages before subtracting the sum in respect of the car. It does not require much imagination to see that employers in the future ought not to be slow to take advantage of the implications of this decision.

Whether or not employers take advantage of all the loopholes open to them leads to much inequality in the way the tax burden is shared. The employee who rides to work in the firm’s car, has lunch in the director’s flat (officially an extension of the staff canteen) has a night out at the Savoy with some foreign buyer and is provided with his own home will find himself possibly £1,500 a year better off than the employee who pays for the same amenities out of his taxed income. At one extreme is the barrister who is allowed few expenses against his earnings and at the other is a first-class farm manager who may very well be provided with his home, car, telephone, heating, lighting, eggs, milk, the occasional chicken, half a pig at Christmas and in practice pay virtually no tax at all on it.

The present practice of trying to police the expenses allowable is the wrong way to master the “perquisites” racket. There is one person and one person only who really knows whether any particular expense is justifiable or not and that is the person actually incurring the expense.
The business's auditors and the inland revenue who between them share the policing under the present system are in no position to unearth credible evidence to query the glib story-teller. When he makes a decision about whether to entertain a foreign buyer to dinner at the Savoy Hotel or to a glass of beer at a pub, a salesman at present is making decisions about other people's money (owned roughly as to half by his employer, and as to half by the revenue). It stands to reason that he will aim at getting away with the highest possible expense, and the policemen are in no position to run him in.

The right way to master the "perquisites" racket is to make the taxpayer pay for this sort of expense out of his own pocket. Then he is making decisions about his very own money and no one else's. I would define a special class of "expense" which it would never be permissible to charge against profits for income tax or corporation tax purposes. The revenue would have no discretion, so it would not be worth the taxpayers' while to argue. I would call this special class of expense a "perquisite" which would mean "any benefit provided for any individual or class of individuals which could be used or enjoyed by that individual or a member of that class of individuals when not engaged in his office, employment, trade, profession or vocation".

Perquisites, so defined, would include some (but not all) items met by expense accounts like all sleeping accommodation and meals provided free or at less than market value, meal vouchers, entertainment, travelling expenses, clothes, cars, children's school fees, hairdressing and some payments in kind. But it should be noted that it would not include a salary paid to an individual to enable him to buy himself these things although that additional salary would be taxed in his hands as ordinary income. Professional people working in their own home might be unfairly affected by such a provision, but this latter concession is, at present, so open to abuse that the fair exploitation of it constitutes a minor problem.

Further, not only would no perquisite be allowed as a charge against profits, but the money expended on it would be taxed in the hands of the recipient at the standard rate of tax. This would simply mean an extension of the machinery of sections 160 and 161, Income Tax Act, 1952 (whereby certain directors and senior employees can be taxed on the benefits they receive in kind). Thus the individual to whom the perquisite was given would be no better off if he received the benefit in kind rather than in cash; but the person giving the benefit would have a positive incentive to make his gift in cash.

One class of exception would have to be allowed to this rule for technical reasons, another (perhaps) for general economic reasons. For technical reasons special arrangements would have to be made for a business—such as travel agents, restaurants and hotels, which made their profits out of purveying perquisites. Such businesses would be permitted to deduct perquisites except to the extent to which these were enjoyed by an employee, officer, proprietor or shareholder of the person charged to tax.

For general economic considerations, it might be wise to exempt from this rule any perquisites which were incurred by an individual engaged in selling British goods and services to non-tax residents, to the extent that these perquisites were incurred abroad. If export managers had to pay for their travelling expenses out of their own pockets, they might decide to stay at home behind their desks, notwithstanding a substantial reduction in the top rates of tax.

It is not possible to estimate how much more income would become subject to income tax (and profits to corporation tax) in the hands of the British taxpayer if the tax base were to be broadened on these lines, but to contemplate such an alteration is quite unrealistic until the higher reaches of our own progression are abated. People paying surtax have not this sort of net income of their own to spend on justifiable expenses. That is the way to stamp out the existing perquisite
The pensions drag

Another of the results of the extremely high rates of surtax is the drag on efficiency caused by the provision of pensions for managers. The growth of schemes by which pensions are paid to ordinary workers below the management level on retirement, if imperfect from the point of view of fostering mobility of labour, is one of the more agreeable developments of the British business scene since the beginning of the century. The revenue loses a good deal of tax in his way because, for no good reason that have been able to discover, approved pension funds pay no income tax. But pensions below management level are clearly desirable.

In the days before the 1939-45 war, no one would have dreamt of providing pensions for managers: the managers themselves would have been shocked at the thought that they were not to be trusted to look after themselves. However, the tax structure being what it is, it was apparent after the war that it was unfair to the manager that the tax advantages of providing a pension for him should not be extended up the line to the senior employees in the way in which it had been extended down the line to the workers below management level. So neither of the unhappy results of the high rates of income tax and surtax is the managers’ pension drag, top-hat or otherwise, which spreads a manager’s diary over his whole life instead of concentrating it into his working years.

It is fundamentally wrong for the institution they work for, for the managers themselves, and for the country at large, that these key people should become more and more immobile in their jobs to longer they serve. It is this ossifying tendency which is the striking feature of the present arrangements. In the case of many pension schemes the employer’s contributions are non-transferable, whilst others they are only transferable at the option of the employer, but never in a form which gives the employee any advantage.

The ossifying tendency is by no means all the harm done by the pensions drag. When someone gets over the age of forty or so, it becomes increasingly expensive for an employer taking him on to pay up the back-log of contributions necessary to give him a decent pension when he reaches compulsory retirement age. This works against change in two ways. First, it means that a good man over forty is frequently rejected for a job in favour of a not so good man under forty. Second, it makes the good-natured employer extremely reluctant to sack someone over forty because he knows that it will be difficult (if not impossible) for that manager to get a new job.

From the point of view of the British economy it is crucially important for there to be better job mobility among the managerial forty year olds and upwards. Not only must the really able who have reached the top of their tree while quite young be able to move to taller trees without making a crippling financial sacrifice; but the forty and fifty year old managers who have proved to be square pegs in round holes must be shifted to more suitable employment and not compelled by our tax system to work out their disappointed lives as cancers in the businesses in which they find themselves. Most important of all, people who have reached the top of their businesses must not be given an extra financial incentive to hang on until they reach retirement age. It is difficult enough persuading them to unhand the power never mind the money. No one should be in a top job for more than about seven years. He will spend the first two years getting to understand it and his subordinates; he will spend the next two in deciding how it should be improved; and the next two in achieving his design. If he is allowed more than one year to enjoy his achievement he (and his business) will begin to atrophy.

The way to achieve the required mobility is not a task for the government. But it
should avoid positively obstructing this mobility. And the tax advantages of providing pensions under the existing system constitute a formidable spanner in the works. It is no answer to say that a provision in our present system making all pensions automatically transferable would be any more than a partial solution. It would be a great deal better than nothing, but it would leave unsolved a very important part of the problem. From the point of view of many businesses the important thing is that managers should not have to slog out their time until retirement age before receiving their full pension entitlement.

The way to cope with the pension drag is as follows. The structure of income tax and corporation tax should be such as to disallow any pension contribution for managers. I would define a "manager" arbitrarily as "anyone in receipt of an annual income for tax purposes in excess of £1,000 at age 20, £1,100 at age 21, and so on to £3,000 at age 40, and anyone paid £3,000 at any age". It would then be a simple matter to draft a clause disallowing as a charge against profits for tax purposes any contribution paid towards providing a pension for a manager. But for the rates at which income tax and surtax are presently levied, people paid the sort of money indicated above should be well able to look after themselves. They could expect to be paid more during their working lives because their employers would be exonerated from the burden of paying their pension contributions. If any employer is afraid lest his firm should acquire a bad name by being eventually beset by a hoard of penniless old ex-managers, then he can always make it a condition of an employee's service with him that he (the employee) makes private pension arrangements that are satisfactory to him (the employer).

Such a provision would broaden the tax base in a highly desirable way and is the proper method of coping with the pensions drag. But alterations to the law on these lines cannot be contemplated with income tax and surtax at their present levels.

There are other consequences of the rigour of our taxes on income which seem to me to be unwelcome. For example I would guess (and this field is not open to research) that there is a substantial under-utilisation of capital by really wealthy people in Great Britain. I would doubt whether so much capital would be tied up in "amenity" land, enabling a tiny group of people to shoot pheasants on perhaps fifteen days a year were it not for the fact that any additional "income" accruing to that tiny group would be swallowed up in taxes were they to employ it more profitably.

Again, there seems to be evidence of a general unwillingness (Merrett, op cit p 49) to sack high executives which has the corollary that fear of dismissal leads to the convention of granting long-term service contracts with no real justification and which the executives would certainly not grant to their own workers. This convention immensely increases the cost of sacking unsatisfactory managers to no one's advantage.

**Conclusion**

It is the combined result of ineffective capital taxes and effective income taxes which is the slow poison in the British economic system. It ensures that the very substantial personal wealth there is in this country remains in the hands of the same families. It is the most conservative system which can conceivably be devised. If one were to start from scratch to design a tax system for a wealthy country (such as Great Britain) with a view to seeing that the whereabouts of personal wealth never shifted, what one would do would be to arrange that Creators were taxed so severely that they were unable to accumulate any money, but that the Conservers of wealth paid little or no tax. This is precisely the tax system which we have achieved in the second half of the Twentieth Century. People cannot accumulate money by saving from their incomes, but the capital which exists can be handed down from one generation to the next without suffering any appreciable diminution by the Exchequer. It is im-
possible to derive a more perfect arrangement for preserving the status quo.

The ownership of personal wealth confers power and freedom. On a humble level it enables an individual to withstand the pressure of his employers to conform, to sk the sack and do what he believes is right. It can give someone the means to start a business or pursue a vocation of his own. Personal wealth can give the freedom which is denied to many to become, for example, actively engaged in politics. It enables an individual to patronise the arts and support charitable causes. It also confers power to buy up and reorganise old businesses, or to ward off people who want to do the same. The owners of small fortunes can appoint people to manage their own money. The owners of large fortunes often have the power to appoint the managers of some of the biggest businesses in the country.

do not think that the existence of this power, provided it is well spread among the community, is to be deplored. But that is totally wrong and unacceptable that this power should be concentrated in the hands of the conservers of wealth. I am not denying that some conservers exercise the power intelligently. I argue from the fact that if they are able to take money, it is reasonable to suppose that creators will exercise the power more intelligently.

At the moment the cards are stacked the wrong way by our taxation system. What should be done is to ease the tax load on income and shift this weight to a more absolute taxation of capital.
3. the remedies

As we have seen, theoretically estate duty should be an efficient progressive tax on capital. It goes wrong because rich men take pains to "give away" their money long enough before they die.

It is sometimes suggested that the right remedy would be to extend the time limit beyond which gifts inter vivos are exempt from tax to cover the whole life of the deceased person.

But this remedy has an insurmountable administrative snag and I very much doubt if (for example) the extension of the time limit contained in the 1968 Finance Act will have any worthwhile effect. A personal representative is now required to swear on oath: "That to the best of my/or our knowledge and belief the deceased did not, within seven years of his death, make any gifts of money or other property to any person whosoever except ...". At the same time he is reminded: "If the executors or intending administrators swear to this affidavit without personally verifying that the statements in it are true they make themselves liable to penalties". It is difficult enough for the conscientious executor to trace gifts made during the seven years before death. There is no way in which, on earth, a personal representative can trace gifts made by a deceased person 30 years before he died.

Others have proposed that a fairer way to levy the tax would be to revive the old legacy duty because, under that tax, the rate depended on the amount of the bequest and on the relationship of the donee to the donor. But that tax was levied on the same basis as estate duty and, consequently, would be as easily avoided. I suggest that rather than trying to improve estate duty: we must search for something new.

A GRATUITOUS ENRICHMENT TAX

In his book Efficiency, equality and the ownership of property (Allen and Unwin, 1964) Professor J. E. Meade examined four possible taxes which would have the two objectives both of taxing estates and gifts, and of spreading personal wealth more evenly over the general body of taxpayers:

1. the present estate duty;
2. a tax on estates and gifts inter vivos according to the size of the gift or bequest;
3. a tax on each gift or bequest not only according to the size of the gift or bequest, but also according to the existing wealth of the beneficiary;
4. a tax to be levied by recording every gift or legacy received by any one individual in a register against his name for tax purposes. The rate of tax would then be on a progressive scale according to the total of gifts or bequests recorded against his name in the course of his life.

Method one is to be rejected, I would argue, on the grounds that it has been shown to be ineffective: Professor Meade rejects it on other grounds too. Method two is unsatisfactory because it would permit someone to become very wealthy if he inherited money from a number of different sources. Professor Meade seemed uncertain whether methods three or four would be best and listed a number of arguments for and against each of them. The fatal trouble with method three would be that the beneficiary would take steps to see that he got rid of his current wealth before he accepted another large gift from his patron — and there are limitless ways in which this could be "painless" accomplished. I therefore have no doubt that method four is the best. To guard myself against the charge of plagiarising Professor Meade's idea I may perhaps be permitted to mention that, although it went almost unnoticed, I had previously myself propounded the same thesis in A tract on tax reform (Hepburn and Sons, 1939) and no doubt others had before me.

The fixed point from which to take one's bearings when considering the rates at which the tax should be assessed, is the
amount of wealth which is the maximum that an individual should be allowed to receive gratuitously if he is not to get himself into a position of power or influence which either his ability does not warrant or which is regarded as giving him unacceptably advantageous opportunities. I would fix this arbitrarily at £20,000—more or less. £20,000 is not enough to acquire control of a business of any size. This sum invested in a widow’s and orphan’s unit trust would produce a yearly income of about £1,000 and would enable a dedicated scholar or writer to pursue unpaid work and to keep the wolf from the door. People unable to look after themselves could come into a special category of exemption from the tax.

The details of the proposed new Gratuitous enrichment tax (GET), designed to replace estate duty, are set out in the appendix. The tax is to be graduated and progressive on the recipient of a gift or bequest throughout his whole life until through age or infirmity he is unable to look after himself. The object is effectively to prevent him from receiving, otherwise than through his own exertions more than a total of £20,000 from any source. The numbers in brackets following paragraphs of this text refer to the clauses in the proposed Bill.

**Gratuitous Enrichment Tax**

<table>
<thead>
<tr>
<th>Cumulative Amount of Chargeable Enrichment</th>
<th>Tax Rate per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>First £2,000</td>
<td>5</td>
</tr>
<tr>
<td>Next £5,000</td>
<td>10</td>
</tr>
<tr>
<td>Next £5,000</td>
<td>20</td>
</tr>
<tr>
<td>Next £5,000</td>
<td>40</td>
</tr>
<tr>
<td>Next £5,000</td>
<td>70</td>
</tr>
<tr>
<td>Excess over £22,000</td>
<td>90</td>
</tr>
</tbody>
</table>

There is an argument that these rates are preposterously high. There may indeed be a case administratively for giving complete exemption to the first two or three thousand pounds. But let us not lose sight of one of the objects of the measure. It is to stop people acquiring by inheritance or gift enough money to buy themselves into positions of power which their personal qualities do not warrant. £20,000 can buy someone control of a small business. The objective is to stop him getting much more than this, and unless the rates are as steep as indicated, the objective will not be achieved. Of course one could compromise somewhere down the line: but not too far.

**Charities, Exemptions and Exceptions**

We must now think of some way of preventing people from eluding the Exchequer altogether by giving their money to charities. I propose therefore that...
charities should pay a fixed rate of 50 per cent (clause three).

There is clearly no harm done in giving one class of individual complete exemption from the tax. People who through age or infirmity are unable to look after themselves must be looked after by others. I am fixing the start of old age arbitrarily at 70 years, but anyone who through infirmity or other cause is unable to look after himself qualifies for exemption at any age. (clause four (one)). Clearly some exceptions and exemptions must be given for very small sums and in special circumstances. Any guide lines must of necessity be arbitrary. £200 for small gifts in any one year? Why not? When someone gets married, what then? If any one gift exceeds £500 in value, then the whole lot become subject to chargeable enrichment: otherwise wedding presents would be exempt (clause four (one) and (two)).

For the same reasons that married couples are treated as one unit for the purposes of the Income Tax Acts, it seems to me to be equitable to exempt gifts made between spouses altogether, provided that a marriage has not been contracted with a view to avoiding the tax (clause four (four) – (six)). Finally we must exempt trustees of pension funds (clause four (seven)).

**chargeable enrichment**

The tax could be used for other desirable socialist objectives. As is notorious, a person who is lucky enough to be born to parents who can afford to educate him at certain expensive private schools, is placed in a position where he is able to earn a substantially higher income than his equally bright contemporaries. It has been estimated that money spent on education in this way is likely to be twice as productive as other capital gifts; therefore it seems fair to double the value of money spent on school fees and make it chargeable accordingly (clause five).

We then come to the problem of defining “chargeable enrichment”. It must include any gratuitous receipt which does not suffer income tax in the hands of the recipient (clause six (one)). In case there are any doubts about special transactions, we must plug up certain possible leaks. We cannot, for example, allow a father to bear the cost of putting a new wing on his son’s house. Nor must we allow a son’s living expenses to be paid for him by an indulgent father—unless of course the son is under age and dependent on him. Nor any other tax fiddle. And why should not pools winnings and other gambling profits fall into the category of gratuitous enrichment? (clause six (two)).

The possibility should be foreseen that someone with a high GEP rating might try to evade the tax by agreeing to go shares on some gift with someone with a low GEP rating (clause six (three)). So all straightforward or roundabout gifts to individuals would be completely buttoned up.

**trusts**

We then have to deal with that lawyer’s paradise—property subject to trusts. As we have seen, one of the simplest ways of avoiding estate duty is the creation of the family trust. These either leapfrog generations or give such a wide discretion to trustees that no one has an interest which ceases or arises on death and consequently the capital avoids any charges to duty. It is clear that, unchecked, the ability to create trusts would offer the tax-avoider a choice of innumerable routes all by-passing the GEP. Therefore I propose to deal with all trusts by dividing them into two classes: first, trusts which come into existence after the commencement of the Bill becoming law and, secondly, trusts which are already in existence.

In the case of trusts which come into existence after the Bill becomes law, the logical distinction is between interests (such as annuities and life interests) which do not give any right to capital and those which do, whether or not at
the discretion of any person. In the case of the former, they must be taxed on the actuarial value of the income benefits.

In the case of the latter, it would be nice if one could impute the enrichment to the beneficiary straight away. But this would give rise to a host of injustices where a beneficiary was excluded from enjoying any capital by reason of the exercise of a discretion.

It seems best, therefore, to tax the fund rather than the beneficiary, by imposing a liability on the trustees. Admittedly this will be somewhat harsh where the settled funds are of great value. But by and large substantial settlements of this character are only created with a view to the avoidance of tax and estate duty, and their discouragement or diminution by fiscal means is not unreasonable (clause seven (one)-(five)).

We then come to the question of settlements which are in existence when the Bill becomes law. It would be unjust, unfinancially and administratively chaotic, to subject the whole lot to an immediate tax liability as if they were new settlements. The best course seems to be to provide that the entire capital of a discretionary trust will be taxed not later than, say, ten years after the passing of the Bill, and also to impose a liability in respect of any specific enrichment of a beneficiary which in fact occurs, whether made under a discretionary trust or any other. This will give the trustees of discretionary trusts a choice between distributing capital amongst their beneficiaries and thus giving them the benefit of any reduced rates of GET to which they may severally be entitled, and retaining the trust fund undistributed but thereby incurring a much heavier burden of tax (clause seven (six)).

I do not claim that the above method of dealing with trusts is either foolproof or incapable of improvement. Clearly it is easier to devise a fair code for trusts coming into existence after the Bill becomes law than for those already in existence. If there is a powerful enough deterrent to the creation of new trusts (as is envisaged above) then the problem of how to tax existing trusts will gradually run itself off as existing trusts are wound up.

administration

Finally we must sketch in some administrative matters, most of which are self-explanatory. There is one matter of great importance. In order to weight the scales against the avoiders of this tax, the person accountable for the tax should, in the first instance, be the donor (or the personal representatives of a deceased person) rather than the donee. This is merely an adaptation of the principle of deduction at source which has been such a boon to the tax collector in Britain since the beginning of the nineteenth century.

The reason why it is important to weight the scales against the avoiders in this way is that a rich donor will not even be tempted to try a tax avoidance scheme if there is a chance (however remote) that he may be rendering himself liable to pay the tax after he has disposed of the wherewithal with which to pay it.

Moreover, this is no innovation. Where transfers are made inter vivos at the present time, it is in many instances the custom to submit the documents to Somerset House for adjudication for stamp duty purposes. Until this formality has been completed and the documents duly stamped, the transfer cannot be carried into effect. It works now perfectly satisfactorily in practice and there is no reason why similar machinery should not cope with the GET.

Apart from this, very little administrative detail is supplied in the draft Bill. The administration must be a matter for Somerset House. What is set out in the appendix is within the province of the legislator: the mechanics by which the tax is collected is not.

I estimate that a Gratuiitous Enrichment Tax on the lines I have proposed would yield, after taking into account the
proposed abolition of estate duty (£330 million) and the abolition of ad valorem stamp duty on voluntary dispositions, at least an additional £60 million per annum. This estimate is based on the Inland Revenue’s own figure of size of estates. The present means of estate duty avoidance other than gifts may well make this a substantial underestimate of wealth and therefore of the eventual likely yield of such a tax.

A WEALTH TAX

It can justifiably be argued that the incidence of the GET is going to be unfairly haphazard and accidental. A number of people would be able to sit on huge fortunes without having to exert themselves because they had attained a vested interest in possession of their money before the Bill became law, whereas others by ill-timing or ill-luck, would lose a generation’s interest.

Moreover, as we have seen, one of the faults of the present system is that it leads to an incalculable under-utilisation of the country’s resources because it does not pay a really rich man to use the whole of his capital profitably. This might be made worse if he were to find that he could not even give it away to his heirs without the bulk of it going in tax. There is therefore a good case for making a determined attempt to get at the capital of the really rich men: say those with fortunes in excess of £50,000.

Also in the appendix there appears the draft of a Bill to introduce a Wealth Tax. This would be an annual tax on a taxpayer’s “total wealth” (clause two (one)) at progressive rates. The rates proposed (clause two (two)) are as shown in the table.

<table>
<thead>
<tr>
<th>Total Wealth</th>
<th>Tax Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>First £50,000</td>
<td>nil</td>
</tr>
<tr>
<td>Next £50,000</td>
<td>1</td>
</tr>
<tr>
<td>Next £50,000</td>
<td>2</td>
</tr>
<tr>
<td>Excess thereafter</td>
<td>3</td>
</tr>
</tbody>
</table>

son’s “total wealth” should be valued on present estate duty principles which are well understood by both the revenue and solicitors (clause five).

It is sometimes alleged that the administrative difficulties of imposing a wealth tax are insuperable. I suggest two ways of alleviating these difficulties. First, if the tax is confined to people whose real wealth is over £50,000, it will embrace under 1 per cent of all taxpayers and so will affect significantly fewer people than, for example, those affected by the capital gains provisions of the 1965 Finance Act.

Second, consideration should be given to making it self-assessed in the way in which the Americans administer their income and capital gains taxes. If appropriate penalties were introduced for under-assessment (which could justifiably include a 100 per cent tax on the amount under-assessed because if a taxpayer does not admit to having something, then he will not miss it if it is taken from him) and a spot check made on a sample of taxpayers each year, then too much tax should not elude the Exchequer.

I estimate that a tax on these lines would yield about £175 million per annum and would be a useful adjunct to the Chancellor’s armory not only in tax-raising but in ensuring that a wealthy man’s assets were being properly used.
4. the consequences

The remedies I have so far advocated would impose on the class of taxpayers from which managers are drawn an additional £235 million per annum in taxation. I believe this class already pays its fair share of taxes, and that to advocate the imposition of the GET and a wealth tax without a compensating reduction somewhere else, would simply reinforce a widely held view that the only enduring motive common to left-wing sympathisers is envy of other people's riches.

To relieve members of this class one should abate taxes they have to pay on income. It is a mistake to suppose that the best way to do this is by extending the range of earned income relief. This remedy would be all very well if it were possible in all cases to draw a reasonably fair line between earned income and unearned income. But it is not. There is no reliable yardstick. A man with £20,000 invested in a small business may show a profit on it of £5,000 per annum. How much of this represents his earnings, and how much is unearned increment from his investment? Are "expenses" earned? Our tax law says not: not unless it is an expense the Revenue is able to assess on the head of the recipient. Is the income from money which has been saved out of earnings earned? No. On the other hand a Lloyds broker who has been given the necessary capital, "earns" his underwriting profits, although he may never go near the underwriting room at all. Few schedule D businesses run by one married man seem able to escape the calamity of having that man's wife on the payroll simply because the couple pay less tax that way. But a schoolmaster's wife who may work as hard gets no relief. These are a sample of the many anomalies which can be constructed but cannot be corrected. I conclude that earned income relief is an unsatisfactory way of going about the business if alliterative means can be devised. I think it can, and that the distinction between earned and unearned income is not important for this purpose.

The right remedy is to ease dramatically the rates of surtax on the top slices of an individual's income. Surtax produced only £32 million in the tax year 1967-68 and so it would be within the competence of a reforming Chancellor to abolish surtax altogether were he to impose the GET and a wealth tax on the lines and at the rates described above. The chief beneficiaries of such a move would be the Creator of wealth without any capital behind him. And he is precisely the person who ought to be helped but is in fact the most unfairly treated by the present system.

Nor would such a move represent any retreat from the progressive principle. There would be a progressive wealth tax (where now there is none), a progressive gifts tax—with so steep a progression that one friendly critic at Somerset House has predicted that there will be "standing room only" in the Channel Islands if ever it is adopted: and a progressive income tax which would only be less progressive than the present in that the top rates would be reduced to the standard rate of income tax.

Moreover allowing Creators to keep more of their income would enable them speedily to fill the vacuum in the ownership of personal wealth which would be created as inherited fortunes disappeared. But perhaps the outright abolition of surtax would be too much for egalitarians to swallow. If so, the maximum rate at which income tax and surtax is imposed should never exceed 50 per cent on the top slice of an individual's income. Only if this upper limit is rigidly observed would the Creators be able to get themselves in a position to exercise the power which personal wealth brings with it. And unless and until personal wealth is abolished altogether, they should be the people allowed to exercise it.

some arguments against

The first argument against any reforms such as I have proposed is the objection that there has recently been far too much experimenting with new taxes and the system should now be allowed to rest.
for a while. We do not concede much by admitting that the British taxpayer and tax collector have been subjected to a lot of innovation in the last four years.

The chief administrative blockage in the reforms brought about by the 1965 Finance Act, is caused by the long-term capital gains tax. Let me give two illustrations of the kind of problem it creates.

The Save and Prosper Group’s “Monthly investment plan” (a device by which contributors can save money by Banker’s or Post Office order, instructing the managers of the unit trust to buy units each month at the price of the day) had some 40,000 users at the beginning of 1965. Of these 40,000, about 30,000 subscribed an average of £7 each month. Suppose each one of these subscribers were to endure for seven years. In order to compute their liability to the capital gains tax at the end of the period, each one of them has to make the following calculations, produce the relevant vouchers (which they must have kept) and agree the calculations with his tax inspector: add up the cost of 72 separate purchase transactions involved in the first six years of his subscriptions to the scheme; deduct from the total the amount of the distribution equalisation returned to him on the twelve distribution dates in respect of units purchased during the previous six months; add the value of capital gains in respect of each unit on which tax has already been paid by the trust during the six years he was a beneficiary; deduct the amount so arrived at from the proceeds of sale. This will give him his theoretical liability to the capital gains tax—but it is by no means all the calculations he has to make. He must go through the same four steps in respect of the twelve purchases in the final year of his membership of the plan in order to discover his liability to the short-term capital gains tax imposed by Selwyn Lloyd.

Between April 1965 and September 1966, unit trusts managed by the same group realised £347,000 net capital gains. These were certified to unitholders on 1.3 million distribution vouchers, all of which require to be retained and used in computations on eventual disposal. During the financial year in question (and the pace has quickened), the £11.2 million worth of units sold back to the group represented 38,000 individual transactions for an average of barely £300. Each one of these requires to be recorded and the gain computed by the individual on his tax return—even if he subsequently has to pay no tax under concession.

It is no wonder that the capital gains tax provisions of the 1965 Finance Act have utterly choked the crucially important administrative channel between the revenue and the accountancy profession. The return to the Exchequer on this sort of work is unremunerative in terms of the revenue it collects. Moreover if one decides to tax capital gains, one cannot in fairness ignore these transactions—although for administrative reasons the revenue have chosen to ignore gains on chattels selling for under £1,000. I would suggest that if the ownership of capital is going to be subjected to a GERS and a wealth tax, we could afford politically to look at the capital gains tax with different eyes.

The brave thing to do would be to admit that the attempt was mistaken. The revenue raised by the capital gains tax has so far been negligible. If one is prepared to contemplate the repeal of the capital gains tax provisions of the 1965 Finance Act, one could bargain the abolition of three old taxes: estate duty (and ad valorem voluntary disposition duty), surtax and capital gains tax; for two new taxes: the GERS and wealth tax. Both these new taxes (unlike the capital gains tax) would affect only a small class of taxpayer and my guess is that the Inland Revenue and the accountancy profession would accept it as a fair bargain.

I have one important qualification to add to my proposal that the capital gains tax should be abolished. Taxpayers who deal in capital assets (like property speculators and many stockbrokers in shares on “personal account”) should be taxed on their profits as if these profits were
income. This is not a difficult provision to insert into the Income Tax Acts—if indeed (as I have heard it argued) the revenue have not already got the power.

**a disincentive to saving?**

The second powerful argument against the oer and a wealth tax is its alleged disincentive effect on Creators of wealth. It is objected that part, indeed a large part, of the urge to create a fortune in an exceptionally able man consists in his desire to be able to leave a fortune to his family. People work hard to be said in order to give their children a better start in life than they got themselves. If a oer and a wealth tax were imposed your self-made man would stop working at a certain point because there was nothing in it for his family or for him.

The first consideration to be driven home in countering this argument is to emphasise that the point at which there is nothing in it for the Creator of wealth and his family, is quite high. If he is a married man with two children, he may give up to £17,000 to each of them before further gifts attract a rate of oer which exceeds 40 per cent. So he needs £34,000 for this endeavour. He will, no doubt, wish to leave his wife comfortably off when he dies: perhaps a further £50,000 would secure this. He needs a home (£20,000) and some spare cash to secure his declining years. So, all in all, a man needs to own more than £100,000 before he is near to attaining the point at which he begins to wonder if the extra effort is worth the candle.

And after this, I doubt whether the self-made man is much affected by thoughts of what he is going to do to his children. By the time he has made £100,000 it will have become a way of life. The disincentive argument is, as often as not, paraded by people who have themselves inherited a sizeable fortune or a privileged education or both. They understandably want their children to have the same advantages. But the same is not necessarily true of the self-made man. When he is making money (after he has achieved his first £100,000) he may rationalise his urge to extend his wealth by saying that he is doing it for the children, but I do not believe him. If this were true, why should bachelors and childless couples work at all after they have secured themselves a competence? The fact is that, very often, the self-made man has an urge to extend his wealth, with the power which that wealth commands, because that is the way he is made. He wants to live as the most powerful man in the district, and to die the richest man in the graveyard.

If he is not one of these people, and the urge to extend his wealth is faltering, he may very well be one of the people who, at that stage in their development, would be better out of top management altogether. To the self-made man, provided everyone’s children are treated the same way, and (as far as humanly possible) his own are at no disadvantage. I doubt if he is very much interested in enriching them beyond the £17,000 mark.

Any worthwhile statistics to prove this point are impossible to gather. But the experience of insurance brokers, bank branch managers and others in the estate duty saving field is the same: it is far more difficult to sell an estate duty saving scheme to a self-made man than to one who has inherited a fortune.

**the new tax structure**

Let us imagine that these reforms have been adopted. What sort of tax structure affecting the individual would we then have? What would its consequences be for the individual?

There would be a graduated income tax on identical lines to the present tax but rising to a maximum of 10s in the pound on incomes in excess of £5,000. The highest reaches of the progression would be 50 per cent and it is important that it should not be much higher than this. For it means that if someone were earning, say £25,000 per annum, he would keep more than £12,500. Out of this net sum in the hands of the taxpayer, he
would be required to pay any travelling and entertaining expenses incurred by him (except when travelling abroad on export business) even if they were incurred solely on behalf of the business for which he worked. Moreover, his business would not be entitled to enter into any arrangement whereby he was paid a pension. He would have to make his pension arrangements for himself.

A person of ability and intelligence would have a positive incentive to maximise his own income without padding out his standard of living with questionable fringe benefits. No person would be inclined to lean on his spade merely because extra income was not worth having.

For the same reason, people would stop making desperate efforts to rid themselves of their income in favour (for example) of capital profits. The amount of money a person was paid each year would be a reliable guide to what he was in practice getting, and one would not have to delve around (as one does now) to find out the other half of the story: that he has, in addition to his salary, a company car, club subscriptions or children's schooling paid for him, or money lent to him at derisory rates of interest to enable him to buy a house, etc.

It may be objected that this would have little effect on managers who now pay little or no surtax, but this is not the case. Businesses would, at the time the reforms came into force, be obliged to raise a manager's salary by the amount of the business's pension contributions on his behalf and the amount of the manager's existing "perquisites". This would increase existing salaries substantially but at no extra cost to the consumer. Moreover, any money saved on these expenses would belong to the manager himself.

At the time British direct taxes on income were changed on the above lines, gratuitous enrichment would become subject to a swingeing graduated tax. £20,000 or so would become the upper limit of the amount of wealth any person could acquire without working for it.

**the crucial consequences: choice of managers**

Only 12 per cent of the country's taxpayers are going to be affected by these measures. This is a very small proportion of the country's total labour force and a small part only of the electorate. Why do I think these changes are so important? What consequences can be forecast with reasonable accuracy?

I think that these changes are important because, as the authors of *Attitudes in British management* noted the key to the economic prosperity of this country lies in the quality of its managers. I believe that the central long-term economic problem facing Great Britain is to get the right managers into the right slots and the wrong ones out of them, and then enable the right ones to exploit their talents fully. The importance of these changes is therefore this. Owing to our present tax structure the power to appoint managers still rests to too large an extent with the *Conservers of wealth*. In a top job too much of a manager's financial compensation consists in the provision of his pension: hence the necessity of his sticking to his job. A change in the tax structure on the lines proposed would not only overcome the latter handicap, it would also, over the years, redeploy the capital which carries the management-appointing power. This money would pass from the rich families to the *Creators of wealth*. These people would be better at making the appointments because unless they have been good at choosing people for jobs, they will not have made much money. Thus the mechanism for choosing managers would become self-generating in each generation and self-correcting: as opposed to being the haphazard result of who happens to be born rich that it is today.

The first marked changes would occur in businesses (some of them now extremely large and influential) which have been kept under the control of the same
families for generations by various devices for avoiding estate duty. Many businesses in the City of London come into this category and carry an influence and importance (owing to their holding the keys of power in the matter of finance) which quite outstrip their size. More changes would occur in those family businesses (now in the hands of the second or third generation from the original entrepreneur) which are such a deep centre of reaction and stagnation in the Midlands and the north of England and the industrial belt of Scotland. These businesses would have to be sold up or old to the public; and not a moment too soon.

More GET would be attracted if rich men chose to leave their wealth to a small class of individuals (like their own families) than if they chose to spread it around the place, particularly among their poor friends, relations and dependents, or those over 70 or ill; therefore there would be a tendency to spread personal wealth among as many individuals as possible, so that the power which attaches to wealth would tend to be diffused.

It would not be surprising if the more ar-sighted and indolent of our millionaires were to take themselves off to warmer climates. But since this drain would be accompanied (one hopes) by fewer and fewer people of industry and ability joining the brain-drain, the swap of unearned riches for economic and professional talent would be a large net gain.

Above all, the GET would be a much fairer way of raising revenue as between taxpayers. Why should the high earner pay tax at 18s 3d in the pound, while his contemporaries without enterprise, exertion or ability can be given, without offering any tax at all, more money than the high earner is allowed to keep over his whole life? This unfairness which the Creator of wealth now suffers would be adjusted under my reforms at the expense of the Conserver of wealth.

The British economy is unique in the respect that large industrial fortunes have now been in existence in the hands of the same families for over a century and a half. Their continental equivalents acquired these fortunes after ours, have had them fairly ruthlessly pruned from time to time by devastating wars and a higher rate of inflation than our own. The brilliance of the North American and Japanese achievements has occurred more recently and my hunch is that one day they too will be facing the problems we are facing now.

All through our working lives people of my generation in British business have been conscious of the overwhelming power of the Conservers of wealth in the positions of power. However hard they try, the Creators cannot match the wealth which is the sufficient cause of the Conservers’ power, because the tax system precludes them from doing so today whereas this was not the case in the past.

New shoots find it increasingly difficult to grow on a tree which is overburdened by old wood. When a tree is overburdened with old wood some fairly ruthless pruning must be done before the tree can flourish again. So with the British economy. It is my belief that the first place to prune in our economy is the large accumulations of inherited wealth. People must get used to the idea that they have only a leasehold interest in the wealth they may earn and that it is an interest which will, to all intents and purposes, be extinguished on their or their spouse’s death. It is a policy which no Tory government could ever pursue because of the composition of its own Establishment, which is founded on inherited money. As always the only hope for imaginative reform lies in a Labour government with a radical policy.

**SUMMARY OF RECOMMENDATIONS**

To reform the present unsatisfactory system of direct taxation as it affects individuals, I propose:

1. a graduated income tax—against which no one would be allowed to claim
“perquisites”, and managers would not be allowed to claim the cost of their pension—at rates which would not exceed 50 per cent even in the highest bracket;

2. a graduated Gratuitous Enrichment Tax to replace estate duty and the \textit{ad valorem} stamp duty on voluntary dispositions, assessed on the cumulative total (over his whole life) of the taxpayer's receipts from all sources for which he had not worked, effectively to stop anyone being given more than £20,000;

3. a mild self-assessed graduated wealth tax on fortunes over £50,000.

The purpose of these reforms is to shift the burden of the British direct taxes on individuals from the \textit{Creators} to the \textit{Conservers} of wealth.
THE GRATUITOUS ENRICHMENT TAX BILL

Clause one: taxation of gratuitous enrichment

Tax shall be charged in accordance with this Bill in respect of gratuitous enrichment, that is to say chargeable enrichment computed in accordance with his Bill and (save as otherwise provided by clauses three and seven, paragraph two of this Bill) accruing to an individual.

A tax, to be called gratuitous enrichment tax, shall be assessed and charged on the occasion of the assessment in respect of gratuitous enrichment accruing in those years, and shall be so charged in accordance with the following provisions of this Bill.

On the enactment of this Bill estate duty and ad valorem stamp duty on voluntary dispositions shall cease to be chargeable provided that in the case of chargeable enrichment accruing in respect of property on which, or which represents property on which, estate duty was paid by reason of a death occurring within the [seven] years preceding the accrual, the estate duty so paid shall be deemed pro tanto to satisfy the gratuitous enrichment tax payable in respect of that property.

Clause two: individual to be charged

Subject to the exemptions provided by this Bill, an individual shall be chargeable to gratuitous enrichment tax in respect of chargeable enrichment accruing to him in a year of assessment during any part of which he is resident in the United Kingdom, or during which he is ordinarily resident in the United Kingdom.

Subject to any such exemptions an individual shall also be chargeable to gratuitous enrichment tax in respect of chargeable enrichment accruing to him in a year of assessment in which he is not resident and not ordinarily resident in the United Kingdom, if to the extent that the chargeable enrichment accrues at the expense, directly or indirectly, of an individual who was resident or ordinarily resident in the United Kingdom at the time of the accrual.

3. Where chargeable enrichment accrues to an individual in a year of assessment in which he is not resident and not ordinarily resident in the United Kingdom, and (a) he is not chargeable to gratuitous enrichment tax on the whole of such chargeable enrichment under paragraph two of this clause; and (b) he becomes resident and ordinarily resident in the United Kingdom in or before the [fifth] year of assessment after the year of such accrual, the chargeable enrichment, or such part thereof as shall not have been chargeable as aforesaid, shall be deemed to have accrued in and not before the year of assessment in which he so becomes resident and ordinarily resident, and he shall be chargeable to gratuitous enrichment tax accordingly.

4. The aggregate chargeable enrichment accruing to any individual shall be calculated cumulatively over the life of that individual, and so much of the said aggregate as accrues during any year of assessment shall, subject to the next following section, be assessed to and bear gratuitous enrichment tax at the following rates namely:

<table>
<thead>
<tr>
<th>GRATUITOUS ENRICHMENT TAX</th>
<th>cumulative amount of chargeable enrichment</th>
<th>tax per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>first £2,000</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>next £5,000</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>next £5,000</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>next £5,000</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>next £5,000</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>excess over £22,000</td>
<td>90</td>
<td></td>
</tr>
</tbody>
</table>

5. Subject to the provisions of clause five of this Bill, gratuitous enrichment tax assessed on any person in respect of chargeable enrichment accruing in any year shall be payable by that person at or before the expiration of the three months following that year, or at the expiration of a period of 30 days beginning with the date of the assessment, whichever is the later: provided that
where the individual to whom chargeable enrichment accrues or is deemed by virtue of clause six or clause seven of this Bill to accrue is not resident and not ordinarily resident in the United Kingdom in that year, any gratuitous enrichment tax to which he is chargeable under paragraph two of this clause shall be assessed upon, and be payable within the time prescribed by this paragraph by, the individual at whose direct or indirect expense the chargeable enrichment accrued, and if more than one in shares proportionate to the incidence of the expense upon them respectively.

Clause three: special rate of gratuitous enrichment tax for charities

The chargeable enrichment accruing in respect of gifts and settlements for charitable purposes shall bear gratuitous enrichment tax at a flat rate of 50 per cent, and for the purposes of this Bill a gift to a body of persons incorporated for charitable purposes shall be deemed to have been made to that body as trustee, and such body shall be accountable for gratuitous enrichment tax accordingly.

Clause four: exemptions from gratuitous enrichment tax

1. No individual shall be chargeable to the gratuitous enrichment tax after the age of 70 or at such earlier age as through infirmity or other cause he shall be unable to look after himself.

2. Gratuitous enrichment accruing to any individual which does not exceed £200 in aggregate value in any one year of assessment shall not be chargeable enrichment, and the gratuitous enrichment tax payable by or in respect of any individual for any one year of assessment shall not exceed the amount by which the gratuitous enrichment accruing to him in that year exceeds £200.

3. So much of any gratuitous enrichment accruing to any individual as consists of gifts of which none exceeds £500 in value and each is normal and reasonable having regard to the occasion of the gift and the means of the donor shall not be chargeable enrichment.

4. So much of any gratuitous enrichment accruing to any individual as consists of a benefit from his or her spouse shall not be chargeable enrichment if at the time when the benefit accrues: (a) the marriage has subsisted for seven years or more; or (b) there is existence at least one child of the marriage.

5. Where neither of the conditions prescribed by the last preceding paragraph is satisfied at the time when a benefit accrues from one party to a marriage to the other party, the chargeable enrichment accruing to that other shall be reduced by one-seventh of the value of the benefit for each complete year during which the marriage has subsisted at the time when the benefit accrues.

6. Paragraphs four and five of this clause shall apply to benefits accruing to one party to a marriage under the will or intestacy of the other party as if such benefits had accrued immediately before the death of the deceased party.

7. Gratuitous enrichment accruing to the trustee of a pension fund or scheme approved by the Commissioners under section 379 or 388 of the Income Tax Act, 1952, shall not be chargeable enrichment.

Clause five: surcharge for school fees

So much of the chargeable enrichment accruing to any individual as consists of the payment or satisfaction of tuition fees in respect of that individual at any school (not being a school established primarily for the provision of adult or part-time education) shall for the purposes of the gratuitous enrichment tax be deemed to consist of twice the amount so paid or satisfied.

Clause six: chargeable enrichment

1. Subject to the provisions of this Bill, chargeable enrichment means the enrichment of an individual in any manner, otherwise than by the receipt of income within the meaning of the enactments relating to income tax or of revenue of a trade or profession, to the extent that such enrichment is not made for full consideration in money or money's worth.
provided by that individual, and does not represent the payment or satisfaction of a bona fide claim for damages for any wrong or injury or breach suffered by that individual.

Without prejudice to the provisions of paragraph one of this clause, chargeable enrichment includes each of the following: (a) the enhancement in value of any property of an individual in consequence of any contract or arrangement, whether not that individual is a party to it; (b) any payment or other consideration made or given to a third party with a view to the provision by or at the expense of the recipient of goods or services to, or the release or compromise of a claim against, an individual, either immediately or in the future, other than a provision by an individual of the ordinary necessities of life for any dependent of his; (c) any arrangement whereby a liability of an individual, whether actual or contingent, is released or compromised for less than its full amount, otherwise than in the ordinary course of a business carried on by that individual; (d) all winnings from betting, including pool betting, or lotteries, or games with prizes.

For the purpose of this clause any payment or other consideration made or given to a person as agent or trustee for an individual, not being settled property to which clause seven of this Bill applies, shall be deemed to have been made or given to that individual.

Clause seven: settled property

The chargeable enrichment accruing to an individual from settled property shall be computed in accordance with the following provisions of this clause.

Where on the creation after the enactment of this Bill of a settlement, whether inter vivos or arising under the will intestacy of any person, an interest in the capital of the settled property, either immediate or future and whether vested or contingent, is conferred on an individual who is in existence or identifiable at the commencement of the settlement, there shall be deemed to have accrued to that individual at the creation of the settlement a chargeable enrichment having a value corresponding to the proportion of the settled property to which that interest extends.

3. For the purpose of the last preceding paragraph a settlement shall be deemed to be created whenever additional property becomes subject to the trusts of an existing settlement otherwise than by reason of the reorganisation of the capital of any company or the exercise by the trustees thereof of powers of sale or of transposing investments or other administrative powers, or the value of any settled property is enhanced in consequence of any contract or arrangement, to the extent of such additional property or enhancement in value.

4. If on the creation of a settlement after the enactment of this Bill the capital subject thereto, or any part thereof, is settled on such terms that no interest therein within the meaning of paragraph two of this clause is conferred upon any such individual as is mentioned in that paragraph, a chargeable enrichment shall be deemed to accrue to the trustees of the settlement (whether or not they are individuals) equal to the value of that capital or, as the case may be, that part thereof, and such trustees shall not be entitled to the exemptions conferred by clause four of this Bill, but they shall be accountable for the gratuitous enrichment tax thereon calculated in accordance with clause two, paragraph three of this Bill as if they had received no previous chargeable enrichment other than any property previously settled (whether before or after the enactment of this Bill) either on the trusts of that settlement or by the same settlor on trusts chargeable under this paragraph: provided that if by that settlement or any one of them an interest in income is conferred upon any such individual as is mentioned in paragraph two of this clause, a chargeable enrichment shall be deemed to accrue to that individual equal to the actuarial value of the interest so conferred, and the chargeable enrichment deemed by this paragraph to accrue to the trustees of the settlement.
shall be reduced by the amount of that actuarial value.

5. The provisions of paragraph four of this clause shall be without prejudice to the liability to gratuitous enrichment tax of any beneficiary under a settlement pursuant to any other provision of this Bill by virtue of the receipt by him or the application for his benefit of any capital comprised in that settlement as a result of an exercise of any discretion or power of appointment conferred by the settlement.

6. In the case of any settlement in existence at the enactment of this Bill, the general administration of the trusts of which is not normally carried on within the United Kingdom, the chargeable enrichment tax shall be imposed upon and not before the accuer to a beneficiary of chargeable enrichment from the settled property, and in the case of any such settlement the general administration of the trusts of which is normally carried on within the United Kingdom the following provisions shall have effect: (a) if it is a settlement to which paragraph two of this clause (without the extension thereof by paragraph three of this clause) would have applied in respect of the entirety of the capital thereof if the settlement had been made after the enactment of this Bill, there shall be deemed, on the vesting in possession in any individual of an interest in capital, to accrue to that individual a chargeable enrichment equal to the value of the capital so vesting; and (b) in any other case the preceding paragraphs of this clause shall apply as if the settlement had been created upon the expiration of ten years from the occurrence after the enactment of this Bill of any of the following events namely: (i) the cesser of any vested interest in income which was enjoyed at the enactment of this Bill by any identifiable individual; and (ii) the death of any person who had at the enactment of this Bill an interest in the capital of the settlement within the meaning of paragraph two of this clause; and (iii) the transfer of any capital of the settle-

ment to any beneficiary or the creation in his favour of an absolute interest in any such capital.

Provided that upon the happening of any of the said events the preceding paragraphs of this clause shall apply only to the extent of the capital to which the same relates, and shall apply at the end of the said period of ten years to the extent of any balance of capital then subject to the trusts of the settlement.

Clause eight: valuation
Subject to the provisions of this Bill, where it is necessary to value any property for the purpose of determining the amount of any chargeable enrichment, that property shall be valued in the same manner as that in which it would have been valued immediately before the enactment of this Bill for the purpose of determining liability for estate duty in respect of such property, but without any reliefs for agricultural land, timber or industrial equipment.

Clause nine: accountability
The following persons shall be accountable for the gratuitous enrichment tax and to the following extent, namely: (a) where the chargeable enrichment or the benefit thereof accrues directly to an individual or is deemed by clause seven paragraph four of this Bill to accrue to trustees: the person at whose expense directly or indirectly the chargeable enrichment or the benefit thereof accrued or failing him that individual or those trustees; (b) where the chargeable enrichment consists of a payment or other consideration made or given to a person other than the individual to whom the chargeable enrichment accrues or is deemed to accrue by virtue of clause six or clause seven of this Bill: the person at whose expense directly or indirectly the chargeable enrichment accrued.

Clause ten: assessment
It shall be the duty of the person who by the last preceding section is made accountable for any gratuitous enrichment tax in respect of any chargeable enrichment within 28 days after the occurrence of the chargeable enrichment
forward full particulars thereof (including the names and addresses of any individuals other than the person to whom chargeable enrichment thereby accrued or was deemed to accrue) to the inspector and to give such additional information in relation thereto as the inspector may require; and any gratuitous enrichment tax to which that chargeable enrichment shall give rise shall, subject to the provisions of clause two, paragraph five of this Bill be assessed upon and paid by the person so made accountable.

THE WEALTH TAX BILL

Clause one: scope of tax

Tax shall be charged in accordance with this Bill in respect of total wealth, it is to say, total wealth computed in accordance with this Bill owned by or in trust for an individual.

A tax, to be called wealth tax, shall be assessed and charged for the year and for subsequent years of assessment in respect of total wealth owned those years, and shall be so charged in accordance with the following provisions of this Bill.

On the enactment of this Bill tax in respect of capital gains and income tax under Case VII of Schedule D shall cease to be chargeable: provided that where securities or landed property are the subject of charge under an income tax act, such securities or property, or the proceeds of the income tax acts, shall not be chargeable as capital gains.

Clause two: rates of tax

Subject to the exemption provided by this Bill, an individual shall be chargeable to wealth tax in respect of the total wealth owned by him in excess of £50,000 in value on 1 January in a year of assessment during any part of which he is resident in the United Kingdom, or in which he is ordinarily resident in the United Kingdom.

Excess of £50,000 in value shall in each year of assessment be assessed to and borne wealth tax at the following rates, namely:

<table>
<thead>
<tr>
<th>WEALTH TAX</th>
<th>tax per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>total wealth</td>
<td></td>
</tr>
<tr>
<td>first £50,000</td>
<td>nil</td>
</tr>
<tr>
<td>next £50,000</td>
<td>1</td>
</tr>
<tr>
<td>next £50,000</td>
<td>2</td>
</tr>
<tr>
<td>next £50,000</td>
<td>3</td>
</tr>
<tr>
<td>excess thereafter</td>
<td>4</td>
</tr>
</tbody>
</table>

Clause three: definition of total wealth

Total wealth means the aggregate value of any securities, shares, securities, chattels, cash or property of any kind whatsoever (other than (a) any annuity life interest royalty or other right to receive income (b) any property comprised in the assets (c) any policy of assurance which matures only on the death of any person) owned by an individual less any debts he may owe to anyone which are recoverable from him by legal action.

Clause four: trusts monies assessable

Where any person holds property either alone or jointly with others on trust for any individual (not being a trust for charitable purposes) he shall be assessed to and pay wealth tax on the total wealth held by him on the said trust as if he were an individual and had no wealth other than that property and any other property settled by the same settlor on the same trusts.

Clause five: valuation

Where it is necessary to value any property for the purpose of determining the amount of an individual's total wealth, that property shall be valued in the same manner as that in which it would have been valued immediately before the enactment of the Gratuity Enrichment Tax Bill, for the purpose
of determining liability for estate duty in respect of such property but without any relief for agricultural land or industrial equipment.

_Clauses six: accountability_

The person holding any property in respect of which wealth tax is assessable shall be accountable for that wealth tax, and it shall be his duty at the end of each year of assessment in which on 1 January thereof his total wealth exceeded £50,000 to send full particulars thereof to the inspector and to give such additional information in relation thereto as the inspector may require.
The Fabian Society exists to further socialist education and research. It is affiliated to the Labour party, both nationally and locally, and embraces all shades of Socialist opinion within its ranks—left, right and centre.

Since 1884 the Fabian Society has enrolled thoughtful socialists who are prepared to discuss the essential questions of democratic socialism and relate them to practical plans for building socialism in a changing world.

Beyond this the Society has no collective policy. It puts forward no resolutions of a political character. But it is not an organisation of armchair socialists. Its members are active in their Labour Parties, Trade Unions and Co-operatives. They are representative of the labour movement, practical people concerned to study and discuss problems that matter.

The Society is organised nationally and locally. The national Society, directed by an elected Executive Committee, publishes pamphlets, and holds schools and conferences of many kinds. Local Societies—there are a hundred of them—are self governing and are lively centres of discussion and also undertake research.

Enquiries about membership should be sent to the General Secretary, Fabian Society, 11 Dartmouth Street, London, SW1; telephone 01-930 3077.

Oliver Stutchbury is fund raising adviser to the Labour Party and was formerly managing director of the Save and Prosper Group of Unit Trusts.

He would particularly like to thank Victor Earl who prepared the table on p5 which is a cornerstone of the thesis of this pamphlet; Ralph Instone who was responsible (among other things) for drafting the Bills, although he should not necessarily be taken to be in political accord with their provisions; and Harold Lind who prepared the estimates of the yields from the new taxes and of the alterations in yield of the old.

Cover design and typography by Geoffrey Cannon. Printed by David Neil & Co. (TD), Dorking, Surrey.

SBN 7163 0388 4
## recent fabian pamphlets

### research series

<table>
<thead>
<tr>
<th>No.</th>
<th>Author(s)</th>
<th>Title</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>233</td>
<td>Frederick Singleton</td>
<td>Workers' control in Yugoslavia</td>
<td>3s</td>
</tr>
<tr>
<td>235</td>
<td>Anthony Topham</td>
<td>Industrial relations: Sweden shows the way</td>
<td>3s</td>
</tr>
<tr>
<td>252</td>
<td>Jack Cooper</td>
<td>The mental health services</td>
<td>3s</td>
</tr>
<tr>
<td>257</td>
<td>Peter Mittler</td>
<td>Productivity bargaining</td>
<td>4s 6d</td>
</tr>
<tr>
<td>262</td>
<td>K. Jones, J. Golding</td>
<td>Policies for racial equality</td>
<td>4s 6d</td>
</tr>
<tr>
<td>263</td>
<td>ed A. Lester, N. Deakin</td>
<td>Europe: problems of negotiation</td>
<td>4s 6d</td>
</tr>
<tr>
<td>265</td>
<td>Geoffrey Robinson</td>
<td>Enjoying the Countryside</td>
<td>2s 6d</td>
</tr>
<tr>
<td>266</td>
<td>Arthur Blenkinsop</td>
<td>Mobutu's Congo</td>
<td>4s</td>
</tr>
<tr>
<td>267</td>
<td>Richard Gott</td>
<td>Britain and the developing world</td>
<td>3s 6d</td>
</tr>
<tr>
<td>268</td>
<td>a Fabian group</td>
<td>Equality for women</td>
<td>5s</td>
</tr>
<tr>
<td>269</td>
<td>M. Rendel and others</td>
<td>The two Irelands</td>
<td>3s 6d</td>
</tr>
<tr>
<td>270</td>
<td>Andrew Boyd</td>
<td>Low pay</td>
<td>2s 6d</td>
</tr>
<tr>
<td>271</td>
<td>J. Edmonds, G. Radice</td>
<td>Can Labour master the private sector?</td>
<td>4s</td>
</tr>
</tbody>
</table>

### tracts

<table>
<thead>
<tr>
<th>No.</th>
<th>Author(s)</th>
<th>Title</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>321</td>
<td>Audrey Harvey</td>
<td>Casualties of the welfare state</td>
<td>3s 6d</td>
</tr>
<tr>
<td>323</td>
<td>Richard M. Titmuss</td>
<td>The irresponsible society</td>
<td>2s 6d</td>
</tr>
<tr>
<td>353</td>
<td>Brian Abel-Smith</td>
<td>Freedom in the welfare state</td>
<td>1s 6d</td>
</tr>
<tr>
<td>355</td>
<td>a Fabian group</td>
<td>The administrators</td>
<td>4s</td>
</tr>
<tr>
<td>361</td>
<td>L. J. Sharpe</td>
<td>Why local democracy</td>
<td>3s 6d</td>
</tr>
<tr>
<td>363</td>
<td>K. W. Wedderburn</td>
<td>Company law reform</td>
<td>2s</td>
</tr>
<tr>
<td>364</td>
<td>D. Downes, F. Flower</td>
<td>Educating for uncertainty</td>
<td>3s 6d</td>
</tr>
<tr>
<td>366</td>
<td>Norman Ross</td>
<td>Workshop bargaining: a new approach</td>
<td>3s 6d</td>
</tr>
<tr>
<td>373</td>
<td>a Fabian group</td>
<td>The trade unions: on to 1980</td>
<td>2s 6d</td>
</tr>
<tr>
<td>374</td>
<td>Brigid Brophy</td>
<td>Religious education in state schools</td>
<td>2s 6d</td>
</tr>
<tr>
<td>377</td>
<td>Rigas Doganis</td>
<td>A national airport plan</td>
<td>2s 6d</td>
</tr>
<tr>
<td>379</td>
<td>Rex Winsbury</td>
<td>Government and the press</td>
<td>4s</td>
</tr>
<tr>
<td>380</td>
<td>Jeremy Tunstall</td>
<td>Fish: an antiquated industry</td>
<td>3s</td>
</tr>
<tr>
<td>381</td>
<td>J. Bowers, H. Lind</td>
<td>Europe: the price is too high</td>
<td>3s 6d</td>
</tr>
<tr>
<td>386</td>
<td>N. Brown and others</td>
<td>Defence in the new setting</td>
<td>3s 6d</td>
</tr>
<tr>
<td>387</td>
<td>David Collard</td>
<td>The new right: a critique</td>
<td>2s 6d</td>
</tr>
</tbody>
</table>

### young fabian pamphlets

<table>
<thead>
<tr>
<th>No.</th>
<th>Author(s)</th>
<th>Title</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Howard Glennerster and Richard Pryke</td>
<td>The public schools</td>
<td>3s 6d</td>
</tr>
<tr>
<td>10</td>
<td>a study group</td>
<td>Strangers within</td>
<td>3s 6d</td>
</tr>
<tr>
<td>14</td>
<td>a study group</td>
<td>The youth employment service</td>
<td>3s 6d</td>
</tr>
<tr>
<td>16</td>
<td>Bruce Lloyd</td>
<td>Energy policy</td>
<td>4s</td>
</tr>
<tr>
<td>17</td>
<td>D. Atkinson and others</td>
<td>Students today</td>
<td>5s</td>
</tr>
</tbody>
</table>

### books

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Title</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bernard Shaw and others</td>
<td>Fabian essays (sixth edition)</td>
<td>cased 30s</td>
</tr>
<tr>
<td>Margaret Cole</td>
<td>The story of Fabian socialism</td>
<td>paper 15s</td>
</tr>
<tr>
<td>Brian Abel-Smith, Richard M. Titmuss, Peter Townsend</td>
<td>Socialism and Affluence (reprint of Labour's social plans, Choice and &quot;the welfare state&quot;)</td>
<td>paper 10s</td>
</tr>
<tr>
<td>R. H. S. Crossman</td>
<td>Poverty, Socialism and Labour in power</td>
<td>paper 21s</td>
</tr>
<tr>
<td>Brian Lapping and Giles Radice (eds)</td>
<td>Socialism and planning</td>
<td>paper 12s 6d</td>
</tr>
<tr>
<td>Peter Townsend and others</td>
<td>More power to the people (Young Fabian essays on democracy in Britain)</td>
<td>cased 30s</td>
</tr>
</tbody>
</table>